



KUVEYTÜRK

**2017
ANNUAL REPORT**



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Kuveyt Türk maintains its pioneering role in developing participation banking instruments.

We are boosting productivity through operational centralization, digitalization, automated processes and decision support systems.

We continue to offer a distinctive customer experience on digital channels by developing technology-oriented, innovative products and services.

Approaching our 30th year
as a bank achieving steady
growth and we sustain
our leading position
in the sector thanks
to our above-industry
performance.

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SUMMARY OF FINANCIAL INDICATORS

HIGH PERFORMANCE SUCCESFUL RESULTS...

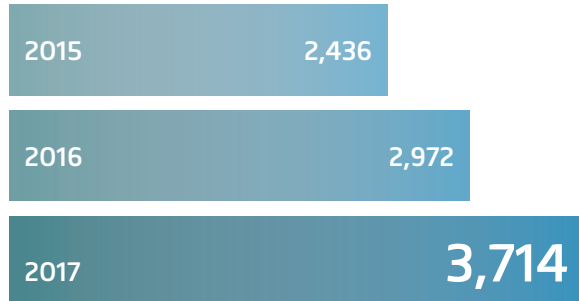
Drawing from its robust financial structure, Kuveyt Türk achieved successful financial and operational results in 2017.

Summary of Financial Indicators (thousand TL)*	2015	2016	2017
Profit Sharing Income	2,436,016	2,971,704	3,713,950
Profit Sharing Expense	1,128,738	1,498,161	1,759,335
Net Fee and Commission Income	268,003	353,836	385,018
Other Revenues	344,247	552,200	537,883
Other Expenses	1,302,950	1,665,618	1,973,872
Tax Charge	116,332	131,237	187,996
Net Profit for the Period	500,246	564,724	715,828
Total Assets	41,860,627	48,427,976	57,320,126
Total Shareholders' Equity	3,700,724	4,239,859	4,923,347
Capital Adequacy Ratio (%)	14.23	18.19	17.32

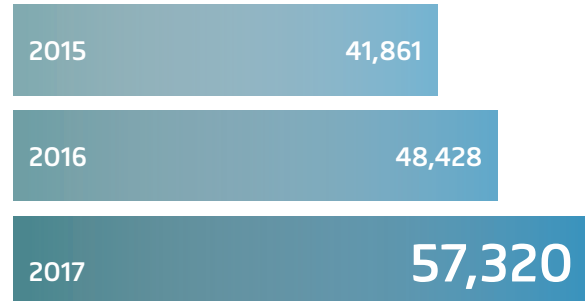
*IFRS Consolidated Figures

Profit Sharing Income (TL Million)

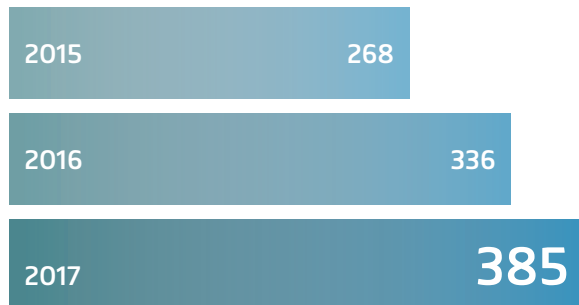
INCREASE

24.98%**Total Assets (TL Million)**

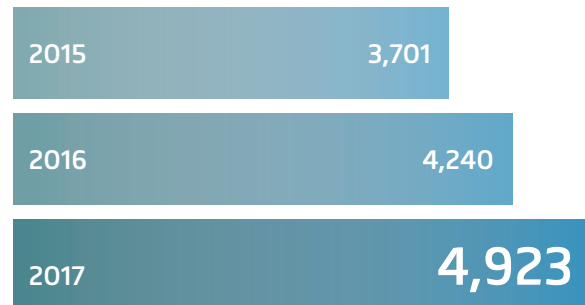
INCREASE

18.36%**Net Fee and Commission Income (TL Million)**

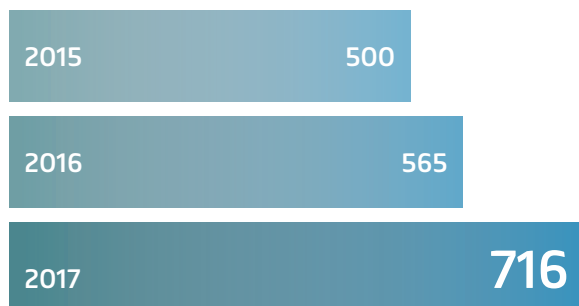
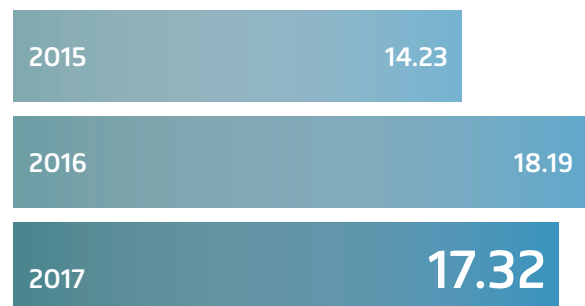
INCREASE

14.64%**Total Shareholders' Equity (TL Million)**

INCREASE

16.12%**Net Profit for the Period (TL Million)**

INCREASE

26.76%**Capital Adequacy Ratio (%)**

AGENDA OF THE ORDINARY GENERAL ASSEMBLY

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

Place of Meeting : Headquarters
 Date of Meeting : 24.01.2018
 Meeting Number : 1700
 Board Members : Hamad Abdulmohsen AL MARZOUQ
 Adnan ERTEM
 Khaled N. AL FOUZAN
 Mohamad AL MIDANI
 Mazin S.A.S AL NAHEDH
 Nadir ALPASLAN
 Fawaz KH E ALSALEH
 Ahmad S. AL KHARJI
 Ufuk UYAN

AGENDA OF THE MEETING

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

RESOLUTION NR:1

The Board of Directors has unanimously resolved to hold the Annual Ordinary General Assembly of Kuwait Turkish Participation Bank Inc. at Company headquarters on 29 March 2018 at 15:00 o'clock to discuss the following agenda and gave authority to the General Management to fulfill the required preparation.

AGENDA OF THE ANNUAL ORDINARY GENERAL ASSEMBLY RELATED WITH 2017

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 fiscal year 2017.
4. Discussion and approval of the Financial Statements for fiscal year 2017.
5. Discussion of independent audit report written by independent auditor for fiscal year 2017.
6. Releasing of the Board of Directors related to their efforts in 2016.
7. Decision on the Board of Directors offer about the profit distribution of fiscal year 2017.
8. Discussion and approval of the amendments of the Articles of Association related to Article 7 as attached.
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. With the current Board of Directors coming to the end of its term, determining the number of Directors for the incoming Board, electing the Directors, and setting their terms of duty.
11. Appointment of the Independent Auditors and determination of the contact period.
12. Providing information by the Board of Directors on external audit in accordance with Banking Law no: 5411 and the related regulations.
13. Providing information on bonus payments to personnel in accordance with the Banking Regulation and Supervision Agency's decision on profit distribution.
14. Discussion and approving of reflecting participation accounts' portion of provision expenses, which set aside according to 14/2 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.
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.

The contents of this decision have been read and understood by the following Board members in their own language agreed on.



Hamad Abdulmohsen
AL MARZOUQ



Adnan ERTEM



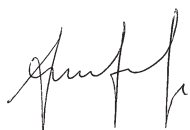
Khaled N. AL FOUZAN



Mohamad AL MIDANI



Mazin S.A.S AL NAHEDH



Nadir ALPASLAN



Fawaz KH E ALSALEH



Ahmad S. AL KHARJI



Ufuk UYAN

SHAREHOLDING AND CAPITAL STRUCTURE

SOLID AND STRONG SHAREHOLDING STRUCTURE

Kuveyt Türk's largest shareholder, Kuwait Finance House (KFH) with its robust financial infrastructure and top-notch banking services, is a prestigious financial institution.

Other real and legal shareholders*

1.04%

Islamic Development Bank

9.00%

Kuwait Public
Institution
for Social Security

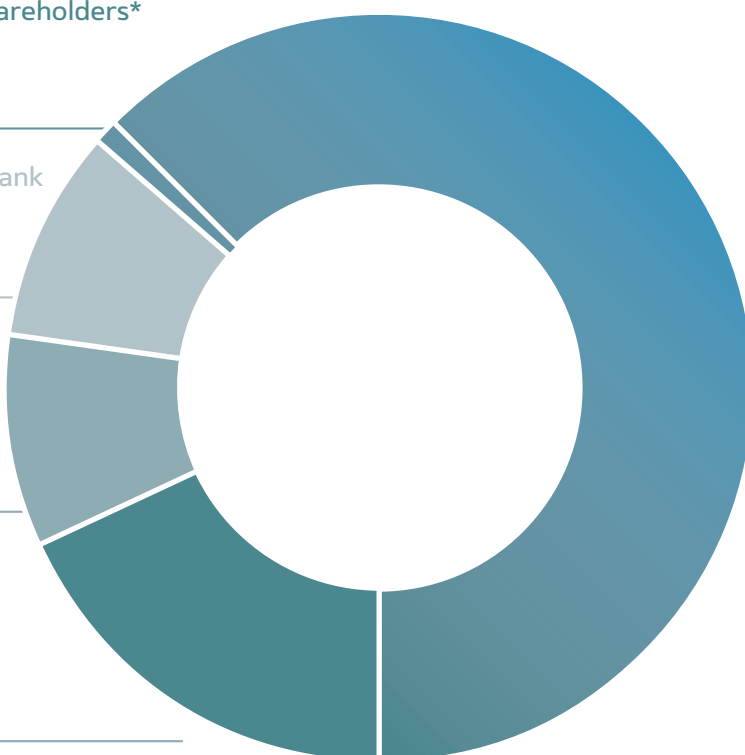
9.00%

Republic of Turkey
General Directorate
of Foundations

18.72%

Kuwait Finance House

62.24%



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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In 2017, Article 7 and Article 37 of the Articles of Association concerning the Capital and Meetings of the Board of Directors were amended.

OLD TEXT

CAPITAL AND SHARES

ARTICLE 7 - The capital of the Bank is TL 2,790,000,000.- (Two Billion Seven Hundred And Ninety Million Turkish Lira) which is divided into TL 2,790,000,000.- (Two Billion Seven Hundred And Ninety Million) shares each with a nominal value of TL 1. The shares are issued in the name of the shareholders.

Out of TL 2,790,000,000.- (Two Billion Seven Hundred And Ninety Million Turkish Lira) capital;

- a) TL 2,530,000,000.- (Two Billion Five Hundred And Thirty Million Turkish Lira) is paid fully.
- b) The TL 259,523,504.- (Two Hundred and Fifty Nine Million Five Hundred and Twenty Three Thousand Five Hundred Four Turkish Lira) of the increased amount of TL 260,000,000.- (increasing capital) (Two Hundred Sixty Million Turkish Liras) is provided in full from the retained earnings of 2015 (fully from internal resources). Against this capital increase shareholders will be given bonus shares in proportion to their shares.

The added capital of TL 476,496.- (Four Hundred Seventy Six Thousand And Four Hundred Ninety Six Turkish Liras) is provided from the profit of Bank earned within the scope of the Law no 5746 and transferred to the other reserves (fully from the internal resources) in 2015. Against this capital increase shareholders will be given bonus shares in proportion to their shares.

NEW TEXT

CAPITAL AND SHARES

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

Out of TL 3,100,000,000 (Three billion and 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 and eleven Turkish Lira) of the increased amount of TL 310,000,000 (Three hundred and 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 and fifty five Turkish Lira) is provided from the profit of Bank earned within the scope of the 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 hundred and thirty eight Turkish Lira) is provided from the profit of Bank earned within the scope of the Law no 5520 Article 5/1-e and has been kept in the other reserves (special fund).

OLD TEXT**MEETINGS OF THE BOARD OF DIRECTORS**

ARTICLE 37 - The Board of Directors shall meet as the affairs of Bank may require and/or upon the invitation of the Chairman or the General Manager. Each Director may ask the Chairman in writing to convene a Board meeting. Nevertheless, the Board is required to hold at one time in every quarter and at least six meetings in a fiscal year. Board meetings shall be held both bodily or electronically in a manner that all or any part of the Directors could attend the meeting in electronically in accordance with Article 1527 of the Turkish Commercial Code. Board meetings shall be held at Bank headquarters. However, the Board may convene at another place and/or country upon the approval of the majority of Directors.

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Board meetings shall be held at Bank headquarters. However, the Board may convene at another place and/or country upon the approval of the majority of Directors. The Directors could attend the meeting in electronically in accordance with Article 1527 of the Turkish Commercial Code. The Bank could set the Electronic Meeting System in order for the beneficiaries to participate the meeting and vote by electronically or buy service from the systems established for this purpose in accordance with the articles of Communiqué on the Boards Hold In Electronically in Trading Companies Other Than the General Meetings in Joint Stock Companies. The Bank ensures that the beneficiaries could exercise their rights mentioned in the related legislation pursuant to the Communiqué by means of the system established in accordance with this article or support system.

Board meetings could completely be held electronically or some part of the Directors could attend the meeting that some Directors attend bodily pursuant to Article 1527 of the Turkish Commercial Code.

Unless a discussion is demanded by another Director, resolutions may be adopted by obtaining bodily or electronically approvals of the Directors (with the procedure of circulation by hand) for any proposal made by a Director.

KUVEYT TÜRK IN BRIEF

THE PIONEERING POWERHOUSE OF PARTICIPATION BANKING...

Having concluded 28 years brimming with achievements, Kuveyt Türk remains the pioneering powerhouse of participation banking in Turkey with its dynamic corporate governance approach, innovative products and involvement in international markets.

TL 14 billion

A major contributor for deepening and developing the Sukuk market in Turkey, Kuveyt Türk has issued sukuks worth over TL 14 billion to date.

The Bank started its activity as a Private Finance House on 31 March 1989 through the permit of Central Bank of Turkey dated 28 February 1989 and under the trade name of Kuveyt Türk Finance Institution of Foundations Joint Stock Company, then started to provide service in 1999, in accordance with the Banking Law numbered 4389, together with other private financial institutions, in 2006, it has been renamed as Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk) that it uses today.

Having celebrated its 28th year in Turkey in 2017, Kuveyt Türk remains the pioneer in Turkey's participation banking industry with its dynamic corporate governance approach, innovative products, and involvement in international markets.

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

As well its banking transactions, the Bank plays a major role in the local economy through investments across a range of industries, from textiles to manufacturing and real estate.

Since its establishment, Kuveyt Türk has been committed to meticulous interest-free banking services, extensive research in investment areas, delivery of cutting-edge, consistent, top-quality and swift services to savers and businessmen, and continuous employee training to achieve higher productivity.



ROBUST CAPITAL STRUCTURE

Some 62.24% of the Bank's shares are owned by Kuwait Finance House, 18.72% by the Turkish General Directorate 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.



TRUST-INSPIRING FINANCIAL POWER

Standing out with its powerful capital structure and dynamic corporate governance philosophy, Kuveyt Türk had TL 3.1 billion in paid-in capital as of end-2017. The Bank's total consolidated assets amounted to TL 57 billion at year's end with shareholders' equity of TL 4.9 billion.



WELL-EDUCATED, TALENTED AND DEDICATED WORKFORCE

The pioneer of participation banks in Turkey, Kuveyt Türk operates via 399 branch locations across Turkey, with 5,749 personnel.

Embracing the latest business techniques, corporate processes and service approaches, almost all of Kuveyt Türk's competent, young and dynamic staff are university graduates.



PIONEER IN GOLD BANKING

Kuveyt Türk started gold banking in 2007 and began to organize Gold Days in 2011. To date Kuveyt Türk has collected 13.1 tons of "gold under the pillow" and integrated it into the economy. Ranking third among all banks in the gold banking sector with 12% market share, Kuveyt Türk is the leader among the participation banks with 63% market share as of 2017 year-end.

Continuing to be the leader among the banks with the highest gold trading volume in the Borsa İstanbul (BIST) Precious Metals and Stones Market, Kuveyt Türk became the first participation bank to earn the title Market Maker in the BIST Precious Metals and Stones Market in 2017.

KUVEYT TÜRK IN BRIEF

EXCELLENT TECHNOLOGICAL INFRASTRUCTURE



Working to ensure that the full range of physical branch services are also available in an end-to-end digital environment, Kuveyt Türk 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 pioneering services such as Senin Bankan, the first interest-free digital banking platform in the industry, XTM branches combining the functions of a call center, conventional branch and ATM, and QR-code withdrawals via the Mobile Branch; Kuveyt Türk introduced a new function to transfer money to mobile phones via the Mobile Branch, facilitating life considerably for its customers.

Thanks to this innovative approach in alternative distribution channels, the total number of digital customers including those on Senin Bankan reached 750,000. Kuveyt Türk customers can now conduct 80% of their banking transactions via alternative distribution channels.

THE BANK THAT INTRODUCED SUKUK TO TURKEY



Since it took an unprecedented step in Turkey by entering the sukuk market in 2010, Kuveyt Türk maintained its leading position for deepening and developing the sukuk market, with the total worth of sukuk issued thus far in Turkey and abroad in various denominations including US dollar, Malaysian ringgit and Turkish lira amounting to more than TL 14 billion. Of this total, sukuk worth TL 7 billion is currently being traded on various markets.

Over the course of 2017, Kuveyt Türk issued sukuks with a total worth TL 2.33 billion, achieving a 35% year-on-year increase, while in September 2017, it broke a new record for the highest value single-issue sukuk export in TL denomination with a sukuk issue worth TL 400 million on a 106-day maturity.

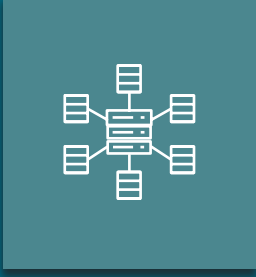
Furthermore in 2017, with Turkey's largest operational fleet leasing brand built on 100% local capital DRD Fleet Leasing as the Beneficiary and Obligor, Kuveyt Türk made the initial public offering of sukuks worth TL 50 million with a 728-day maturity through its wholly-owned subsidiary KT Sukuk Varlık Kiralama A.Ş. while also acting as the intermediary for Turkish Grain Board (TMO) to issue sukuks worth TL 100 million with a 88-day maturity, where physical agricultural commodities were used as underlying assets to finance trade for the first time in Turkey.

**TOTAL
SHAREHOLDERS' EQUITY
TL 4.9 BILLION**

Kuveyt Türk's shareholders equity reached TL 4.9 billion as of end-2017.

**TL 3.1 BILLION
IN PAID-IN CAPITAL**

Kuveyt Türk has TL 3.1 billion in paid-in capital as of end-2017.



STANDING BY THE REAL ECONOMY

Kuveyt Türk ranks among the strongest players in the Turkish finance sector in terms of capital adequacy. In line with its interest-free banking approach, the Bank supports investors, whether real or legal persons, by means of direct financing or joint investments, thereby standing by real economy players and contributing to the national economy under all economic conditions.

With its investments and subsidiaries in the textile, metal, food and real estate industries, Kuveyt Türk transforms the savings of its customers, who are its profit partners, into robust and lucrative investments. In recognition of its achievements, Kuveyt Türk was presented with awards from public agencies and vocational associations such as the Undersecretariat of Treasury and Foreign Trade, İstanbul Chamber of Commerce and the Association of İstanbul Ready-Made Garment Exporters.



FINANCIAL BRIDGE BETWEEN TURKEY AND THE WORLD

Powered by the vast correspondent network and interest-free banking experience of Kuwait Finance House, Kuveyt Türk constitutes a financial bridge among Turkish investors keen on opening up to the Gulf Region and the rest of the world.

Contributing to the development of trade between Turkey and the Gulf Region via its Bahrain branch, Kuveyt Türk entered the European market with its wholly-owned subsidiary KT Bank AG, which commenced operations in Germany in 2015.

KT Bank AG is the first participation bank established in Germany. Following the recent inauguration of the Cologne branch, KT Bank AG now operates at four branches. The Bank expends relentless efforts to design international projects to create new opportunities for investors.

NET PROFIT FOR THE PERIOD TL 716 MILLION

Kuveyt Türk's net profit for the period increased to TL 716 million by end-2017.

NET FEE AND COMMISSION INCOME TL 385 MILLION

Kuveyt Türk's net fee commission income increased to TL 385 million by end-2017.

THE STORY OF 28 SUCCESSFUL YEARS

Providing a multitude of financial products and services, and contributing to the economy, Kuveyt Türk has maintained a pioneering position in the industry for 28 years.

1989 Kuveyt Türk was established with the title, Kuveyt Türk Evkaf Finans Kurumu A.Ş. on March 31, 1989 under the authorization, dated February 28, 1989, of the Central Bank of the Republic of Turkey.	1991 As a result of international banking services provided during the year, the Bank ensured a 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 deemed worthy of the Gold Medallion 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 amounted to USD 50 million.	1995 In recognition of its support to exports, the Bank garnered the Gold Prize from the Association of İstanbul Ready-Made Garment Exporters.	1999 The Bank started to deliver its operations, subjected to the Banking Law No. 4389.
	1993 Kuveyt Türk's Head Office and branches became linked online to each other.	1996 Körfez Gayrimenkul A.Ş. was established as a subsidiary of Kuveyt Türk.	2000 The Bank started providing individual 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.

2012		2014			
<p>Kuwait Finance House’s subsidiary, Liquidity Management House, became one of the 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.</p> <p>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.</p> <p>Kuveyt Türk was the only bank to receive praise in the 2012 special report of the World Gold Council (WGC) for the diversity of its gold products and services.</p>		<p>Kuveyt Türk completed the XTM project, which offers video chat and self-service transactions at the same time, the first of its kind in the world. This innovative service was offered to customers at 22 locations across Istanbul.</p> <p>The latest version of Kuveyt Türk’s Mobile Branch features new functionality and offerings as well as an enhanced user experience.</p> <p>Kuveyt Türk became the first bank in Turkey to appoint a Board Member in charge of Ethics.</p> <p>Kuveyt Türk’s international sukuk issue worth USD 500 million was oversubscribed 6.5 times.</p>			
2013		2015		2016	
<p>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.</p> <p>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+.</p> <p>Kuveyt Türk’s issuance of sukuks, worth TL 150 million, with a maturity of 364 days, was oversubscribed by more than two-fold.</p> <p>With the collaboration of Kuveyt Turk Katılım Bankası A.Ş. and Albaraka Türk Katılım Bankası A.Ş., Katılım Emeklilik ve Hayat A.Ş. is established.</p>		<p>Kuveyt Türk obtained the required license from BaFin, the German Federal Financial Supervisory Authority, to offer banking services in Germany. KT Bank AG commenced its operations as the first bank in Germany that is engaged in interest-free banking activities.</p> <p>Kuveyt Türk commenced its Private Banking operations, a first in the participation banking industry in Turkey.</p> <p>Kuveyt Türk established KT Portföy, the portfolio management subsidiary that is designed to offer interest-free financial solutions.</p> <p>Kuveyt Türk launched the branch- and expense-free digital banking platform—Senin Bankan—which stands out with its new generation banking approach that blends participation banking with online innovations and capabilities.</p>		<p>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.</p> <p>Kuveyt Türk executed its first subordinated sukuk loan issue in February. The issuance was worth USD 350 million and has become the largest issue of its kind in Turkey.</p> <p>Having issued a subordinated sukuk loan worth USD 350 million in February 2016, domestic sukuks as public offering worth USD 300 million in May, and international sukuks worth USD 500 million in November, the Bank firmly held on to its position as Turkey’s largest sukuk issuer.</p> <p>The Turkish Capital Markets Association (TSPB) presented an award to Kuveyt Türk for its operations in the banking industry in 2016.</p> <p>The Bank was designated “Turkey’s Best Islamic Financial Institution” by Global Finance, and “Issuer of the Year” by Islamic Finance News.</p>	

2017

Kuveyt Türk launched its new generation retail credit card Sağlam Kart (Sağlam Card).

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

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

Kuveyt Türk inaugurated the Lonca Entrepreneurship Center to offer start-up companies 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 (sukuk) export in TL denomination.

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

A trailblazer 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.

ABOUT KUYEY TÜR

CUSTOMER-ORIENTED PRODUCTS AND SERVICES...

As it marks new breakthroughs in the banking industry thanks to its robust banking experience, sound management with a clear leadership vision, and its highly competent and qualified workforce, the Kuveyt Türk family conducts all its financial activities within the framework of participation banking.



MISSION

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



VISION

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



OUR QUALITY POLICY

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

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



OUR VALUES

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

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



ETHICAL PRINCIPLES

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

- Integrity
- Impartiality
- Transparency
- Confidentiality
- Ethical Approach



OUR SERVICE PRINCIPLES

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

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

MESSAGE FROM THE CHAIRMAN

VISIONARY AND STABLE MANAGEMENT

Kuveyt Türk moves forward confidently into the future bolstered by Turkey's sustainable growth.

An industry standout with its robust capital structure and dynamic corporate management vision, Kuveyt Türk continued to expand in 2017 while boosting profitability.

Esteemed Shareholders,

2017 was a year of volatility on the world stage. The UK's Decision to leave the EU, interest rate hikes by the US Federal Reserve, conflicts in the Middle East, missile tests by the North Korean leader, government crises in Europe and the dispute over Jerusalem escalated tensions worldwide.

Despite these challenges, the world economy made significant progress in overcoming the adverse impact of the global economic crisis a decade on, finally recovering to a great extent.

According to OECD figures, the global economy expanded 3.6% in 2017. Having now fully rebounded from the crisis, the United States posted 2.2% growth, as the Euro zone expanded 2.4% and Japan grew 1.5%.

While the world's most developed countries enjoyed this favorable outlook, emerging economies, after maintaining high growth rates over the course of the crisis period, could not sustain their momentum. India and China expanded around 6%, while Brazil could only achieve 0.7% growth in 2017 after a two-year recession.

Turkey's robust expansion

Turkey's economy achieved remarkable growth in 2017. After expanding 5.3% in the first quarter, and 5.4% in the second, Turkey outperformed expectations particularly in the third quarter by growing 11.1%.

Government incentives that were implemented played a major part in achieving these impressive growth figures. Facilitating SME and exporter access to finance, lifting the upper limit of collateral provided by the Credit Guarantee Fund (KGF) for Treasury-backed loans from TL 20 billion to TL 250 billion, and creating a Portfolio Guarantee System (PGS) that accelerates loan closing processes all helped revive the country's economy in 2017.

Optimistic outlook for 2018

With signs that the US-led recovery from the financial crisis will extend to Europe, United Kingdom and even Japan, the world economy is widely expected to grow between 3.3% and 3.7% in 2018. As for the Turkish economy, fallout from global events could have a major impact in the coming year. Rising oil prices and potential rate hikes by the Fed are among those factors that could hamper Turkey's economic growth in 2018.



TL 716 Million

Standing out with its sustainable financial performance, Kuveyt Türk increased its net profit by 26.8% year-on-year to TL 716 million.

Outperforming the industry

The Turkish banking industry recorded a successful year thanks to the country's rapidly expanding economy. As of end-2017, banking sector assets grew 19.3% while credits expanded 21% over the prior year. However, participation banks outperformed the industry average in 2017. By the year end, participation banks boosted profits by 43.1%, grew total assets by 20.5% and increased total funds allocated by 25.7%. With these strong results, participation banks advanced confidently toward their goal of capturing a 15% share industry-wide by 2023, the 100th year of the Turkish Republic.

Over this period, Kuveyt Türk retained its clear leadership position in the sector. An industry standout with its robust capital structure and dynamic corporate management vision, Kuveyt Türk continued to expand in 2017 while boosting profitability.

Customer-oriented technology

Over the years, we have introduced many innovations to the market such as Senin Bankan, the interest-free digital banking platform, and XTM Branch, which combines the functions of a call center, conventional branch and ATM. Kuveyt Türk continues to boost its technology investments as Turkey's

only bank with two R&D centers. Our goal is to offer the widest possible array of banking transactions on mobile platforms with a customer-oriented approach. Kuveyt Türk enables customers to swiftly conduct a broad range of transactions – from transferring funds and paying bills to precious metal, foreign exchange and stock trading transactions – wherever they are, without paying any fees.

Our highly competent, well educated, young and dynamic staff at Kuveyt Türk is the biggest contributor to our success. I would like to extend my gratitude to you, our esteemed colleagues, for your contributions to our achievements, and to our shareholders for your unfaltering support.

With regards,

Hamad Abdulmohsen AL MARZOUQ
Chairman

MESSAGE FROM THE CEO

CONSISTENT FINANCIAL AND OPERATIONAL RESULTS...

Kuveyt Türk continued to add value to the Turkish economy with pioneering products such as sukuk and gold banking.

Esteemed Shareholders,

As the pioneer in Turkey's participation banking sector with its dynamic corporate governance approach, innovative products and international market reach, Kuveyt Türk concluded another successful year outperforming its growth targets.

2017 data clearly demonstrates Kuveyt Türk's leadership position.

Posting growth of over 26% in funds allocated, more than 18% in assets, and above 27% in net period profit thanks to focus on increasing productivity, Kuveyt Türk reported TL 57 billion in total assets and TL 716 million in net profit in 2017.

Total funds allocated rose to TL 38 billion while total funds collected went up to TL 40 billion. The Bank's non-performing loan ratio was 2.17%, well below the sector average. The Bank's return on equity increased to 16.12% in 2017.

Serving customers at 399 branches across the country with over 5,750 employees, Kuveyt Türk established another 14 branches in 2017, achieving 85% geographic coverage in Turkey.

Innovative products and services

As part of its drive to introduce additional innovative products and services to the industry, Kuveyt Türk launched its new generation credit card – Sağlam Kart – for customers in 2017.

After taking a groundbreaking step in Turkey by entering the sukuk (lease certificate) market in 2010, Kuveyt Türk maintained its leadership position by deepening and developing the sukuk market. As a result, the Bank bolstered its success in this area with new records.

New records

In 2017, Kuveyt Türk issued sukuk worth TL 2.33 billion, up 35% year-on-year. In September, the Bank executed a sukuk issue worth TL 400 million and featuring a 106-day maturity. With this transaction, Kuveyt Türk posted a new record in Turkey for the highest value single-issue sukuk denominated in TL.

During the year, with DRD Fleet Leasing, Turkey's largest operational fleet leasing brand built on 100% local capital as the Beneficiary and Obligor, Kuveyt Türk executed the initial public offering of sukuk worth TL 50 million with a 728-day maturity through its wholly-owned subsidiary KT Sukuk Varlık Kiralama A.Ş. In addition, acting as the intermediary for the Turkish Grain Board (TMO), KT

Sukuk Varlık Kiralama issued sukuk worth TL 100 million with an 88-day maturity. In this transaction, physical agricultural commodities were used as underlying assets to finance trade for the first time in Turkey.

Boasting multiple industry awards demonstrating its significant support to the real economy, Kuveyt Türk inaugurated the Lonca Entrepreneurship Center. The Center offers start-up enterprises a range of resources and support to expand, including training, mentoring, consultancy and financial investment.

Kuveyt Türk also supported development of Turkey's fintech ecosystem. The Bank provided young entrepreneurs with an environment to test and realize their ideas through the Hackathon Digital Banking Software Project Competition.

Placing great importance on the development as well as productivity of its workforce, Kuveyt Türk continues to invest in education technology. In 2017, the Bank broke new ground in the interest-free banking sector by establishing the Kuveyt Türk Banking School.

Achievements recognized by awards

Since its founding, Kuveyt Türk has been committed to providing the best solutions to its customers and innovative services to support



A financial bridge Kuveyt Türk constitutes a financial bridge among Turkish investors keen on opening up to the Gulf Region and the rest of the world.

the development of participation banking. As in previous years, the Bank's various efforts, research and value creating activities were recognized with awards in 2017.

In a survey by the prominent business and finance magazine Global Finance, our new credit card Sağlam Kart was named "Best New Generation Credit Card." Meanwhile, Kuveyt Türk's 100% owned subsidiary KT Bank AG received the award for "Best Up-and-Coming Financial Institution."

One designation that clearly demonstrates Kuveyt Türk's commitment to sustainable success is the "Best R&D Center" title. Kuveyt Türk R&D Center was deemed worthy of the "Best R&D Center" award in the "Finance" category at the Sixth Private Sector R&D Centers Summit. This prestigious competition is organized by the Science and

Technology Department at the Ministry of Science, Industry and Technology.

Pioneering technological transformation

Kuveyt Türk differentiates from the competition with its emphasis on technology, pioneering transformation in the participation banking industry and digitalization initiatives. The Bank continues to bolster its information and technology systems infrastructure and expand its electronic banking services.

KT Bank AG, Kuveyt Türk's subsidiary in Germany, commenced operations in 2015 and currently serves customers at four branch locations. KT Bank is powered by Kuwait Finance House's extensive correspondent network and deep-rooted experience in interest-free banking to facilitate Turkish investors' access to world markets. The Bank's operations in the Gulf region are managed through its Bahrain branch.

Kuveyt Türk develops solutions for the ever-changing financial needs of society as well as innovative products and services that perfect the customer experience. With trailblazing products in Turkish banking – such as Golden Days, Gold-to-Gold Participation Account, Quarter Gold Coin Account, and

Gold-Dispensing ATMs – Kuveyt Türk helped transfer nearly 13.1 tons of gold from under-the-mattress savings into the national economy.

Steadfastly upholding participation banking principles, quality service provision and sound banking values since its inception, Kuveyt Türk plans to continue extending the scope of its services in 2018. The Bank will expand its physical branch network further in the coming year while diversifying its digital banking services.

I would like to extend my gratitude to all our stakeholders, especially staff members, for their immense contribution in helping us achieve our objectives, as we all look ahead to the future with hope.

Ufuk UYAN
Member of Board of the Directors
and CEO

As the share of participation
banking steadily rises,
Kuveyt Türk capitalizes
on this growth trend
through new products and
innovative ideas and takes
confident, robust strides
into the future.

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COMMERCIAL AND CORPORATE BANKING GROUP

INNOVATIVE PRODUCT AND SERVICE APPROACH...

Kuveyt Türk Commercial and Corporate Banking Group operates 92 branches including three corporate branches with 213 portfolios and 194 highly-qualified staff.

TL 17.7 Billion

The Commercial and Corporate Banking Group concluded 2017 with 4,000 active clients with total collected funds increasing to TL 4 billion and extended funds rising to TL 17.7 billion.

Operating with a view to be a business and solutions partner to its clients through its customer-oriented portfolio management model, Kuveyt Türk has reinforced its lead among participation banks in the Commercial and Corporate Banking segment.

Operating at 92 branches including three corporate branches with 213 portfolios and 194 highly-qualified staff, Kuveyt Türk Commercial and Corporate Banking Group concluded 2017 with 4,000 active clients with total collected funds rising to TL 4 billion and extended funds increasing to TL 17.7 billion. Figures for 2017 are testament to the Bank's leading position in the segment:

- 4,109 active clients with three products
- 29,754 total clients
- TL 4 billion collected funds
- TL 17.7 billion cash funds extended
- TL 7.7 billion non-cash credit volume
- TL 170 million other revenues
- TL 4.1 billion FX credit risk
- TL 1.1 billion leasing

As well as increased efficiency achieved in extending funds thanks to the Automatic Pricing module, the auto-commission system generated significant added value for banking service revenues in 2017. Maintaining

its pioneering role in the banking industry thanks to its new products, as well as new processes developed through cutting-edge technology and innovative ideas, the Leasing with Profit Share and Direct Debiting System (DDS) with Profit Share products helped Kuveyt Türk stand out from its competition. It also saw a rise in sub-dealership or dealership agreements with companies from the Commercial and Corporate segment. Kuveyt Türk aims to boost its activities for its new supplier finance product in 2018.

In the strategically important field of exports, the Bank continues to extend pre-shipment export loans from its own funds as well as the Eximbank funds.

In 2018, the Commercial and Corporate Banking Group will continue to enhance the customer experience with innovative products and services, and remain indispensable to its clients. Commercial and Corporate Banking Group's primary goals for 2018 are as follows:

- Reducing the share of foreign-exchange-pegged loan (DEK) in favor of TL and FX, focusing on asset quality and profitability by improving credit quality; developing strategies towards raising more TL corporate deposits,
- Providing depth to customer relations through effective portfolio reporting and CRM tools and boosting market penetration through product diversification across the customer base,
- Boosting Leasing with Profit Share and DDS with Profit Share products in particular through sub-dealership or dealership agreements with companies from the Commercial and Corporate Banking Segment,
- Gaining new clients and improving customer satisfaction through the continued offer of high-quality services.

Project and Structured Finance Department

Established in February 2017, the Project and Structured Finance Department accomplished significant achievements particularly in the field of renewable energy.

The Department manages a portfolio with a total worth of USD 671 million. Of this, USD 340 million was extended in 2017 as new disbursements for 137 different projects, all of which involve unlicensed solar power plants. Kuveyt Türk is currently the largest financier in this field, having funded 15% of all unlicensed solar energy power plants currently in operation. The Bank also provided USD 250 million in financing for HEPP RES projects.

The Bank plans to continue financing renewable energy in the upcoming period and to act as the intermediary for issuing sukuk on behalf of corporate clients. Focusing also on infrastructure projects, Kuveyt Türk aims to take part in projects of strategic importance for Turkey in this field in the coming period.

Meanwhile, regarding Ongoing Construction Projects, guarantorship agreements were signed for 600 different projects in 2017 and TL 471 million was extended for housing and workplace financing for projects that involved campaign deals within this framework.

Having funded 15% of Turkey's unlicensed solar energy power plants currently in operation, Kuveyt Türk emerged as the largest financier in the field.

LOANS

ADDING VALUE TO BUSINESS PROCESSES...

Concluding another year of success, the Loans Group evaluated requests for over 31,000 individual loans and over 118,000 corporate loans.

Thanks to the Automatic Decision Support System, 74.4% of individual loan applications in 2017 were processed automatically, with 7.8% of the remainder evaluated by the branches, and 17.8% by the Individual Loan Department.

The Loans Group is responsible for submitting loan requests received from the branches, with accompanying financial evaluations, analyses and reports to the Bank's relevant committees. Concluding another year of success, the Loans Group evaluated requests for over 31,000 individual loans and over 118,000 corporate loans.

In order to adapt to macroeconomic and market conditions and to keep credit risk at the minimum level; credit strategies, credit policies, credit application principles and decision support rules have been reviewed periodically, and when needed, necessary modifications were executed.

Below are some of the initiatives implemented in 2017 to improve service quality:

Automatic Decision Support System: In 2014, the Bank started operating a new business model, the Automatic Decision Support System. In this context firstly, customer scorecards and business rules were integrated in the Individual Loan allocation processes, allowing the system to deliver automatic approvals and rejections in a swift and accurate fashion. Through the system under further development, 74.4% of individual loan applications in 2017 were processed automatically, with 7.8% of the remainder evaluated by the branches, and 17.8% by the Individual Loan Department. Regarding credit card applications,

automatically evaluated requests in 2017 reached 82%. The Bank is planning to further boost these figures in the period ahead.

SME Decision Support System:

In order to process SME and microfinance funding requests more swiftly, limit/deposit authorization rules of the system were revised and it was brought online in selected pilot branches. A further project is underway in collaboration with the Analytical Banking Department to upgrade the system currently running based on expert opinions, to a model. Modeling will help ensure that allocation proposals are more objective, and that each branch regardless of its classification can authorize loans up to certain limits for customers with high ratings.

E-Signature Initiative: Loan decisions are filed under the name of the relevant committee, assigned a decision number, and are physically archived after the decision with wet-ink signatures obtained from all staff at the relevant loans department. In line with increasing digitalization in the banking industry, an e-Signature initiative was launched involving several potential advantages such as receiving signatures only from relevant committee's members, tracking decisions without recourse to the number and storing decisions digitally instead of physically; and the project was brought online as a pilot scheme as of 19 December 2017 at the Head Office Commercial Loans Subcommittee.

The Corporate Credits and Commercial Credits Departments continued to improve the operational quality in 2017.

Corporate Credits and Commercial Credits Departments

The Corporate Credits and Commercial Credits Departments continued to improve the operational quality in 2017.

Due to changes in the segmentation structure, a significant number of clients were transferred from SME segment to the commercial segment. Therefore, the Commercial Credits Department previously operating under a single unit was split into two, namely, Commercial Credits Department 1 and Commercial Credits Department 2.

SME and Consumer Loans Group Department

Following an organizational restructuring move, the Consumer Loans Department was brought under the SME Loans Group Department and was renamed the SME and Consumer Loans Group Department.

Credit allocation requests of up to TL 15 million are now evaluated by the Regional SME Loan Departments.

Proposals breaching Regional SME Loan Departments' limit or deposit authorization rules and requests concerning project finance are submitted to the relevant committees by the Credit Coordination and Business Development team established in 2017 under the SME and Consumer Loans Group Department.

In 2017, 17.8% of the consumer loan applications and 18% of the credit card applications were evaluated and the rest of the applications were evaluated automatically, and also in the Branches.

As previously planned, credit card limit enhancement applications and staff loan applications were integrated into the Automatic Decision Support System.

Financial Analysis and Intelligence Department

Financial Analysis and Intelligence Department prepares financial analyses and intelligence reports for companies applying for loans of or over TL 35 million concerning their activities, characteristics, capacity, liquidity, financial status, and profitability based on intelligence and other market information.

Over the course of 2017, 715 financial analysis reports were completed, 4,600 new financial data reports issued by the branches were checked and 600 scrutiny requests were met. The Bank also issued special reports regarding the World Bank loan issued to participation banks through the intermediation of TSKB.

Following the completion of the BOA financial analysis transformation process, a 21% year-on-year increase was achieved in the number of reports compiled in 2017. The new system also boasts an infrastructure offering advantages for compliance

with the IFRS 9 process which allows for dynamic and instant reporting. The responsibility of the Financial Analysis and Intelligence Department is to prepare loan evaluation reports for companies that demand loans. These reports form the basis for the final decision taken by the loan committees.

Kuveyt Türk regularly conducts in-house training programs for its employees that work in the Credit Department, in order to better their financial analysis skills.

The Department's Goals for 2018:

- Activating the decision support systems,
- Increasing automatic allocation rates in Consumer Loans Decision Support System,
- Compiling "revenue estimate model" studies for SME and individual clients,
- Extending E-signature application to all credit allocation units,
- Reducing the workload of the Head Office and Regional offices through continued BOA system enhancement,
- Conducting all evaluations for credit limit enhancement requests from individual clients in 2018 through the automatic system.

RETAIL BANKING

SERVICES TAILORED TO NEEDS AND EXPECTATIONS

Kuveyt Türk holds 12% of all precious metal accounts across the wider banking sector and 63% of accounts in participation banks. In 2017, the precious metal account balance increased 25% compared to the previous year.

Putting customer needs and expectations first as its guiding principle in operations, Kuveyt Türk offers a wide range of products and services to its customers in Retail Banking.

As the first bank to introduce participation banking products and services to the retail segment, Kuveyt Türk acquired 413 thousand new participation fund customers and expanded its total retail customer base by 16% to 3.4 million.

In retail banking, the Bank raised TL 5.1 billion in new funds, boosting its total fund volume by 25% over the prior year. The Bank's total fund volume market share among all participation banks stood at 37%.

Kuveyt Türk inaugurated 14 new branches in 2017, bringing its total branch network up to 399 locations. The Bank delivers services via branches and ATMs positioned in prominent commercial and industrial hubs, an online branch designed with the latest in advanced technology, and a 624-strong retail sales staff.

Putting customer needs and expectations first as its guiding principle in operations, Kuveyt Türk offers a wide range of products and services to its customers in Retail Banking.

Accounts

The Bank posted a 25% increase in its precious metal accounts over the prior year. In terms of precious metal accounts, Kuveyt Türk has a 12% market share in the overall banking industry and a 63% share among participation banks.

The Gold-to-Gold Participation Account was first developed in Turkey by Kuveyt Türk and started to feature a monthly term option in 2017. The overall volume of the gold collected through this innovative service has climbed to 17.8 tons.

Another Gold Banking offering from Kuveyt Türk is the physical gold collection campaign "Golden Days," which has succeeded in integrating 1.8 tons of gold to the economy in 2017.

With the "Quarter Gold Coin" account, it is possible to buy and sell physical and virtual "quarter gold coins", to give buy and sell orders, and to accumulate gold regularly. In addition, customers can withdraw gold from all Kuveyt Türk branches or they can buy gold on the Internet and Mobile Branch.

Credit and Debit Cards

In 2017, the Bank recorded a 41% rise in the number of cards issued and it reached 453 thousand. There was a 35% increase in card generated turnover over the prior year.

During the year, the Bank stated a means for customers to make credit card applications. In 2017, the Bank also began to receive assistant services to all consumer customers that were given to Platinum Card holders. Consumer customers can dial the assistant service whenever the need arises.

Enabling customers access to their debit account at ATMs and while shopping, and earning them Gold Points for their purchases, Altın Kart (Gold Card) reached the 2 million mark in 2017.

The Needs Card product, another Kuveyt Türk offering that sets an example for other banks in the industry, continued to attract great interest in 2017. The Needs Card is an offer for the first time in Turkey as an alternative to general purpose loans credit. The innovative product allows customers to divide their short-term expenditures—for marriage, home renovation, education, travel, healthcare and similar—into 46 installments while enjoying a two-month grace period.

Thanks to the rapid expansion in the credit card and debit card lines, Kuveyt Türk joined the top 10 banks with direct access to Interbank Card Center (BKM) committees in 2017.

Financing

Retail Banking accounts for 14% of total loans, with a loan portfolio amounting to TL 5.2 billion. In 2017, Kuveyt Türk extended approximately TL 2.5 billion in new funds. Some 80% of this amount is composed of real estate financing.

Kuveyt Türk also boosted its market share in total consumer loans by 21% compared to the previous year to reach the top position in the real estate financing segment in the participation banking sector.

With vehicle finance liabilities reaching TL 397 million, Kuveyt Türk grew 31% compared to the previous year and became the fastest growing bank in the field in 2017.

Offering customers a range of personal finance tools meeting all their needs from education to travel or Hajj/Umrah travel and wedding expenses, Kuveyt Türk also began to finance fees required by organizing companies and the Directorate of Religious Affairs in 2017 to ensure its customers enjoy peace of mind as they visit the holy lands.

Insurance and Pension

Since February 2011, Kuveyt Türk has offered its customers Private Pension System (PPS) insurance plans, which include interest-free options such as sukuk, equities, participation accounts, gold and silver accounts. In 2017, the Bank sold 48,000 PPS plans, bringing the total to 137,000. At year end, the PPS fund portfolio totaled TL 578 million and commission income amounted to TL 3 million.

Neova Sigorta (Neova Insurance) abides by the principles of tekâfûl (interest-free insurance), in all its operations and contracts. It is the only insurance company to provide such a service in Turkey. Kuveyt Türk has cooperated with Neova Sigorta since 2010, and bolstered this relationship further in 2017.

Focusing on meeting all the finance-related needs and expectations of its customer base in accordance with interest-free banking principles, Kuveyt Türk collaborates with Neova Sigorta and Katılım Emeklilik. This collaboration allows the Bank to provide its customers with a rich collateral structure and alternative product packages to meet their insurance needs. The total insurance premium that Neova Sigorta generated in 2017 via Kuveyt Türk amounted to TL 215 million.

With its innovative vision in interest-free insurance, modern and technological investments, and customer-oriented service approach, Kuveyt Türk day by day expands the range of products and services it offers through Katılım Emeklilik. "SME Private Life Insurance" and "Credit Personal Accident Insurance" were offered to customers in 2017. The insurance premium generated by Katılım Emeklilik through Kuveyt Türk in 2017 was TL 36 million.

Furthermore, in order to gain a different perspective and understanding of the customer needs and expectations, executives from the Head Office joined frontline staff at the counter and marketing departments for a day at branches across Turkey with "A Day in the Field"

Increase in Total Consumer Loans

Kuveyt Türk also boosted its market share in total consumer loans by 21% compared to the previous year to reach the top position in the real estate financing segment in the participation banking sector.

project in 2017. Following the two-part visit dedicated respectively to Istanbul and other Anatolian branches, feedback was gathered from the participants and action was taken in accordance with the action points identified in the feedback in order to improve customer experience.

Alternative Distribution Channels Marketing

In 2015, the Bank created the ADC Marketing Department under the Retail Banking Department. The ADC (Alternative Distribution Channels) Marketing Department basically aims to decrease the operational expenses of the branches and to apply new marketing trends.

The Department features teams that operate Senin Bankan, the first interest-free digital banking product in Turkey and globally; XTM, the world's first project that blends video chat with self-service transactions; in addition to various projects to gear up mobile and online marketing efforts.

The main goals of the Department, which is designed to market the projects developed in house at Kuveyt Türk, are cutting operational costs and reshaping Alternative Distribution Channels to boost their profitability.

XTM: Launched in 2013 with the inauguration of the first XTM point, this project aims to reduce the expenses of the branches and to take participation banking services into every facet of the Bank's operations.

RETAIL BANKING

Thanks to the rapid expansion in the credit card and debit card lines, Kuveyt Türk joined the top 10 banks with direct access to Interbank Card Center (BKM) committees in 2017.

During the year, the Kuveyt Türk's Mobile Branch active user base expanded by nearly 65% and reached 700,000 people while the number of digitized active customers rose by nearly 42% compared to 2017.

The XTM project continued to grow in 2017, via the opening of new branch locations and the expansion of transaction sets. Currently, the Bank operates 31 XTMs, 22 of which have branch status. In 2017, around 13,159 new customers were acquired via these XTMs. The value of the funds collected by XTM branches increased by 125% compared to the end of 2016 while the amount of funds extended increased by 118%.

Senin Bankan: In early 2015, Kuveyt Türk launched Senin Bankan, Turkey's first Digital Participation Banking platform. Unlike the regular banking transactions across Kuveyt Türk, Senin Bankan enables customers to access numerous banking services without having to visit a branch location. Senin Bankan has included many more products in its offering, while making crucial contributions to the digital banking segment. In 2016, Senin Bankan garnered two awards at a competition organized by International Data Corporation, in the categories of "Financial Inclusion" and "Digital Channels." The number of Senin Bankan clients reached almost 100,000 in 2017. Aside from opening accounts and accessing credit card, İhtiyaç Kart (Needs Card), housing finance and vehicle finance products, Senin Bankan clients can now withdraw money from all bank ATMs free of charge. EFT and wire transfers are also conducted free of charge on Senin Bankan platform.

Mobile – Internet Branch: In 2015, Kuveyt Türk launched its iOS and Android Mobile Branch apps, developed with in-house resources,

and worked to boost the number of customers who use the mobile branch with efforts in 2017. During the year, Kuveyt Türk's Mobile Branch active user base expanded by nearly 65% and reached 700,000 people while the number of digitized active customers rose by nearly 42% compared to 2017. Currently, 45% of the Bank's active customers use the digital channels. With the increase of Mobile and Internet Branch use, Kuveyt Türk boosted its foreign currency and precious metals revenue via these channels by nearly 14%.

Kuveyt Türk Web Site: With the launch of the new web site in 2017, all users can now enjoy a more user-centered experience. The new features introduced to the web site make it simpler and faster for users to find out about the Gold Days, and to locate branches and ATMs as well as providing further guidance for card applications and opening accounts. The new structure provides customers with more effective services, including swift access for loan and profit share calculations from the home page. A MoneyGram form has been embedded into the web site to help accelerate transactions at branches. During the year, 3.7 million unique users visited the web site monthly on average.

Private Banking and Wealth Management:

The Private Banking and Wealth Management Group was established to meet the investment and financial needs of domestic and foreign clients in the high net worth individuals

segment via privileged and prioritized services, at the best prices and with the widest product range. The Group provides products and services to private customers and NGOs with assets worth TL 1.25 million at minimum and fund allocation worth TL 750 thousand.

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 and manages customer assets worth more than TL 10 billion. The Bank had a total of 7,000 Private Banking clients, 30% of whom were foreign, at year-end 2017.

In 2017, Kuveyt Türk Private Banking Group expanded its customer base as it started to extend its services to non-bank financial institutions including insurance companies, portfolio management companies, pension funds, and investment funds.

During the year, the Private Banking and Wealth Management Group actively marketed 15 sukuk issues to qualified investors. In addition to the already available TL sukuk fund, USD sukuk fund and mixed equity funds featuring shares, KT Portföy launched a new participation fund for Private Banking clients featuring short term sukuks offering daily returns, and these products were marketed actively.

The Private Banking and Wealth Management Group executes agreements with top-notch construction development projects and participates in both domestic and overseas real estate fairs to become the bank of choice for high net worth individuals from the Gulf Region who want to invest in Turkey. Furthermore, Gulf Region investors who want to capitalize on opportunities in the Turkish real estate market are offered financing with up to 50% LTV and five-year terms. Work is also underway to establish a Real Estate Investment Fund managed by KT Portföy.

Launched at the end of 2015, the Private Banking Credit Card offers cardholders a range of privileges including special discounts in overseas spending, free fast-track services at selected domestic airports, complimentary car wash and dry cleaning services, as well as free lounge services, discounted transfer services, and fee-free access to ATMs at nearly 500 airports across the world.

The Group meets the financial needs of its Private Banking clients via the İstanbul Private Banking Branch where they receive privileged services; these customers are also served by Private Banking Corners at 12 other branch locations. At these corners, clients explain their current needs and obtain investment advice in a secure manner. For customers who want to receive services overseas or who seek to invest in interest-free products, the Bank provides service points in Bahrain, Kuwait and Germany.

During 2017, in response to demand from Gulf Region clients, Private Banking started to deliver exclusive advisory services on issues such as law, taxes, zakat, inheritance, real estate, arts and education overseas as well as tailor-made services for portfolio management, investment consultancy and legal advice regarding Turkish citizenship applications.

In addition, special economic bulletins and market reports for finance and real estate in Turkish and English are issued for Private Banking customers to keep them up-to-date on domestic and overseas markets.

In 2017, a new model was created in order to deliver Private Banking services to individual clients served thus far under corporate segments, optimizing benefits of Private Banking features for these clients.

A 24/7 call center service was set up for customers during the year. Personnel fluent in English or Arabic started to deliver privileged services to Private Banking clients speaking those languages.

TL 10 billion

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 and manages customer assets worth more than TL 10 billion.

The Private Banking website (www.kuveytturkozeli.com.tr) was upgraded and now provides services in Turkish, English and Arabic. As such, domestic customers can instantly open accounts while the Bank can acquire new customers more effectively.

At the world-renowned Horizon Interactive Awards, where Fortune 500 companies and international agencies compete with global web sites that are ranked according to product presentation and design, the Bank received the “Best of Category” prize in Banking and Finance for its Private Banking web site. Also in 2017, Kuveyt Türk Private Banking web site received the “Standard of Excellence” award in the Bank category at the 21st Web Awards organized by the Web Marketing Association.

The Private Banking and Wealth Management Group plans to expand its customer base, portfolio size and branch network with private banking representatives in 2018, under the brand Kuveyt Türk Private Banking. In 2018, there are plans to build a finance portal in addition to the new features introduced on the Private Banking web site.

Core Banking Product Development

Core Banking Product Development/Fund Collection Dowry Account: This participation account is designed to support marrying young people, whereby

RETAIL BANKING

The Internet Branch had its layout, color and themes aligned with the new design of the Kuveyt Türk Web Site, and was relaunched to serve its customers with its new look.

Kuveyt Türk offers its customers lucrative and alternative investment tools through Turkish lira and US dollar denominated mutual funds via its wholly-owned subsidiary KT Portföy.

families can make savings on behalf of their children or persons younger than 24 can save money for their dowry. When customers put away savings in the Dowry Account for at least three years, they can enjoy a government contribution as well. The account allows savers to deposit sums in monthly or three-monthly periods.

Home Account: This participation account encourages customers seeking to buy their first home to save money regularly, while benefiting from a government contribution and high rates of profit sharing. Customers who want to become homeowners can receive the government contribution when they save money in this account for at least three years. The account allows individuals to deposit sums in monthly or three-monthly periods.

Gold Jewelry Participation Account: Under the integration between Istanbul Gold Refinery (IAR) and Kuveyt Türk, gold items brought in to the Bank's branches by customers are analyzed by IAR experts. After an assessment to determine the gold carat and weight, the customer is given a signed form which lists the gold's purity level, weight in grams, its pure gold content and the amount in grams to be deposited in the account. The customer can then go to the counter to deposit the stated amount of pure gold to his/her account. As such, the gold is deposited in an account with a high profit sharing rate.

Core Banking Product Development/ Fund Allocation

Leasing with Profit Share: Pursuant to Kuveyt Türk's agreement with leasing providers, this financial leasing product allows the Bank to receive all or some of the profit from the provider, and not from the customer.

Machinery and Equipment with Industrial Registry Certificate: This product provides BSMV tax exemption to Kuveyt Türk clients, such as industrial enterprises that hold an Industrial Registry Certificate, in their purchases of new machinery and equipment.

Core Banking Product Development/ Foreign Trade and Treasury

Mutual Funds: Kuveyt Türk, via its subsidiary KT Portföy, delivers its customers mutual funds denominated in Turkish lira or US dollars as a lucrative, alternative investment instrument.

Sukuk Transactions: In addition to issuing sukuks denominated in Turkish lira or US dollars, the Bank intermediates in the secondary trading of other sukuks approved by both KT Portfolio and the Audit Committee.

Forward for Loan Installments: This product allows customers who took out funds in DEK or foreign currency to turn their upcoming repayments from the foreign currency into Turkish lira via forward contracts.

Export Futures Pre-Financing: This product helps exporter clients who lack the financial means to receive financing to manufacture a product that they will export.

Alternative Distribution Channels (ADC) Product Development:

ADC Product Development aims to integrate the latest technological developments into banking, while offering more product and service delivery channels for customers via digital payment systems, in addition to conventional channels. To this end, the Department designs channels best suited for the special needs of customers, to help them meet their needs via alternative channels without having to visit a physical branch.

Kuveyt Türk Website: Attracting a monthly average of 2,176,821 users, the Kuveyt Türk website ranks 361st among the most visited web sites in Turkey. Benefiting from extensive user experience surveys, the website was relaunched in 2017 for all its users with a new design. The updated website with its responsive interface delivers an optimized user-friendly experience on smart phones, tablets and desktop computers. The contemporary interface and site architecture also make it more convenient and intuitive. Its interactive calculation tools help work out profit shares, loan repayments or card repayment installments. Thanks to the enhanced search features, accessing the required information became much quicker. The website was streamlined by emphasizing visual rather than textual features. Furthermore, the customers can access the website with their choice of language in Turkish, English and Arabic. Hence, Kuveyt Türk became one of the few banks in Turkey to serve its Arabic-speaking clients in their native language on its website. As the first bank in Turkey to receive MoneyGram application forms online, the web site works to swiftly deliver all kinds of information and services to its clients.

Internet Banking: Constantly developing its features with a view to deliver improved services, Kuveyt Türk Internet Branch focused on projects to enhance user experience in 2017. A number of new features were introduced to facilitate clients' lives particularly in the menu options under Saved Transactions and Orders tabs. The Internet Branch had its layout, color and themes aligned with the new design of the Kuveyt Türk Website, and was relaunched to serve its customers with its new look.

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 features software developed exclusively in-house. Functionality enrichment work is ongoing for the transfer of numerous transaction sets to the Mobile Branch in order to deliver a user experience equivalent to that of the Internet Branch. The efforts in 2017 helped realize major projects such as cash transfers to GSM numbers and cash withdrawals with QR codes via the Mobile Branch. With the QR Code withdrawals, customers can withdraw cash without having to carry an ATM card, simply by scanning the QR code generated on any Kuveyt Türk ATM with their mobile phone's camera. As a result of functional improvements, the Mobile Branch can now process donations and payments into the Directorate of Religious Affairs as well. Furthermore, the Online Finance facility for corporate clients, previously available only on the iOS platform was released on Android platforms. One of the most significant enhancements on the Mobile Branch in 2017 was the launch of Mobile Branch in Arabic. Thus, Kuveyt Türk became the first bank in Turkey to offer its customers on the Mobile Branch Arabic language support as well as English. Arabic-supported Mobile Branch enabled Arabic-speaking customers to access services in their native language.

Senin Bankan: Senin Bankan is a digital banking platform where Kuveyt Türk customers can apply for various products without visiting a branch. Senin Bankan helps customers open

an account over the Internet, and apply for credit card, vehicle finance, mortgage and needs financing. In 2017, 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. One of the most significant initiatives to make a positive contribution to customer experience and boost operational productivity was the introduction of Anonymous Debit Card model in the card operations.

Payment Systems and Product Development

In order to offer an unrivaled payments systems experience to both retail and commercial customers, Kuveyt Türk completed a series of payment system related projects in 2017.

Credit Cards and Debit Cards: In 2017, the Bank took measures to enhance its credit and debit card processes, while also launching a series of brand new products. Kuveyt Türk's software was completely integrated with TROY, a payment systems service provider developed by the Interbank Card Center (BKM). With this upgrade, Kuveyt Türk POS devices now accept TROY-compatible cards. In addition, Kuveyt Türk started marketing cards with the TROY logo. Kuveyt Türk's retail credit card had a brand refresh, and acquired a new look as "Sağlam Kart" (Sağlam Card). Redesigned in accordance with sound banking principles, the retail segment credit card Sağlam Kart splits healthcare and education expenses of TL 100 or above into five interest-free installments. Sağlam Kart cardholders rewarded with Gold Points for their purchases also receive bonus Gold Points worth TL 50 if they regularly spend TL 200 or above in each statement period for 12 months and meet their payments on time. With these features, Sağlam Kart is an innovative product since it is not only fee-free but also repays the card fee to its customers in Gold Points. Customers can also benefit from the cash advance service for credit cards in Saudi Arabia.

RETAIL BANKING

In 2017, a campaign system was built for Kuveyt Türk debit cards, providing an infrastructure to assign several flexible campaigns to customers.

The development of the new Kuveyt Türk debit card bearing the logo of TROY, Interbank Card Center (BKM)'s local payment system, is complete. Throwing its full support behind the local payment system with the launch, Kuveyt Türk holds the leading position in the field of TROY debit cards.

Debit Cards: The development process of the new Kuveyt Türk debit card bearing the logo for TROY, Interbank Card Center (BKM)'s local payment system, is complete. Throwing its full support behind the local payment system with the launch, Kuveyt Türk holds the leading position in the field of TROY debit cards. Through a separate project carried out this year, Kuveyt Türk customers using debit cards with a TROY logo began to conduct secure payment (Güvenli Ödeme - GO) transactions in e-commerce. Running on a similar infrastructure to 3D Secure payment authentication, GO secure payment system is a BKM product. In 2017, a campaign system was established for Kuveyt Türk debit cards, providing an infrastructure to assign several flexible campaigns to customers. Thanks to this infrastructure, Senin Bankan cardholders are now able to withdraw cash free-of-charge from Ortak Nokta (Joint Spot) ATMs. Furthermore, they enjoy bonus gold points and special discounts in their purchases through the campaigns assigned to their card.

SME Card: In 2017, the lifespan of the SME Card was extended to five years to help better finance commercial banking clients' purchases of goods and services. Therefore, the medium to long-term finance requirements of SME clients were addressed and the number and turnover of corporate cards increased.

Sağlam Bayi Kart: Palmiye Kart was improved and rebranded as Sağlam Bayi Kart (Sağlam Vendor Card). The

dealers purchasing goods/products/services from distributing companies can make their payments swiftly and easily with Sağlam Bayi Kart. A closed circuit payment system is also built thanks to the Kuveyt Türk POS terminals provided to distributing companies. Sağlam Bayi Kart is offered to the Bank's customers free-of-charge.

Kuveyt Türk Participation Bank created a custom retail and corporate credit card infrastructure for KT Bank AG, its participation bank subsidiary in Germany. Operating as an overseas participation bank, KT Bank AG can offer its customers credit cards based on murabaha structure. The retail credit card application system also functions as a decision support system by scoring and evaluating the applicant's terms. The project thus made a further positive contribution by facilitating KT Bank AG employees' activities such as allocation and marketing.

In order to promote more diversity in the innovative and digital product range of payment systems before 2017 came to an end, the "Card-to-Card Cash Transfer" project was launched, enabling customers to send money from Kuveyt Türk credit and debit cards to other banks' debit cards. This scheme makes transfers between cards issued by the Bank and other financial institutions within set daily and monthly limits simple and easy.

mPOS: Paying heed to customer needs and keeping up with the latest technological developments, Kuveyt Türk launched mPOS - a mobile

POS product unprecedented in the participation banking industry. Enabling smart phones to receive payments from credit and debit cards, the project marks the first application of the technology in this field in Turkey. Collection is made by entering the card information for the payment into the mPOS menu in Kuveyt Türk Mobile Branch. Payment transactions are securely authenticated with 3D Secure infrastructure. The transaction is complete once the OTP code sent via SMS to the mobile phone is entered into the corresponding field on the mPOS menu alongside the card information. Targeting particularly small businesses and SME customers, the Kuveyt Türk mPOS service is free. The service is activated simply by submitting an application at Kuveyt Türk branches.

Virtual POS: Another new feature was brought online for Kuveyt Türk's POS business as it continued to grow in 2017 both in numbers and turnover. Businesses operating on Kuveyt Türk virtual POS can now offer to split the payment into installments for a fee. The scheme helped both to increase the number and volume of transactions on e-commerce web sites while responding to customer requests to split credit card payments for e-commerce purchases into installments.

XTM: 2017 was a year of infrastructure enhancements to provide XTM with a more user-friendly and efficient structure. Usability studies were conducted on the call management screen to help Call Center representatives make better use of the call duration. At the same time, new concepts were drawn up for branches on XTM infrastructure and these began to be piloted at certain locations in 2017. Some XTM branches had multiple XTM devices installed. Other XTM branches had more than one marketing staff assigned to the branch manager, to ensure XTM branches maintained the pace of marketing activities as in regular branches. There were also XTM devices installed in existing branches to divert some of the workload of

counter staff to the XTM device. Some XTM branches had counters installed, so that the marketing representatives could provide customers with counter services when required.

ATM: In 2017, the development work carried out across the İşlematik (ATM) network was innovative, reflected the Bank's social responsibility approach and relieved the operational workload at the counter. Additionally, other improvements were made within the framework of legal obligations as required by the BKM (Interbank Card Center) and BRSA.

Developed as part of the social responsibility projects, the Voice Menu Enhancement work was completed as of December 2017. Through this scheme, as soon as visually impaired customers plug their headphones into the special audio jack on Kuveyt Türk ATMs, the screen goes dark preventing bystanders from viewing the information, allowing the customer to complete the transaction through voice command with the aid of embossed keys on ATM keypads. The project ensures that not only Kuveyt Türk customers but also other banks' customers benefit from the Voice Menu Enhancements. Customers who notify their own bank or Kuveyt Türk of their disability will not pay charges for transactions made via Kuveyt Türk ATMs and other banks' joint ATMs.

One of the ATM improvements concerning payments is the inclusion of motor vehicles tax (MTV) and traffic fines. Regardless of whether they are Kuveyt Türk customers or not, anyone can pay MTV and traffic penalties via Kuveyt Türk ATMs. The payments can be made either in cash with the cardless transaction option on the menu, or by transfers from the account by inserting a Kuveyt Türk card. When a card is inserted, there is an option to choose between debit or credit card accounts. The aim is to thus reduce operational costs by shifting some of the workload from the counter to ATMs during the MTV payment periods.

2017 was a year of infrastructure enhancements to provide XTM with a more user-friendly and efficient structure.

Another development regarding payments is the inclusion of Religious Payments (Hajj Pre-registration and Health Staff Examination fee) which can be paid with or without cards via ATMs. The main purpose is to shift the entire workload of the Hajj Pre-registration fee payments from the counter to ATMs.

In 2017, making necessary adjustments in accordance with the legal requirements passed down by BKM and BRSA constituted some of the largest and most significant ATM developments. Joint ATM Cash Deposits is a project BKM assigned to all banks in 2017. This project allowed people who are not Kuveyt Türk customers to deposit cash into accounts held at other banks from Kuveyt Türk ATMs.

Following the developments in credit card transactions, anyone inserting a credit card issued by another bank into a Kuveyt Türk ATM will now be able to access their own bank's menu options for Credit Card Balance Enquiry, Credit Card Limit and Credit Card Payment. Furthermore, Kuveyt Türk continues to offer services to other banks' credit card holders for Physical Gold Purchases and Password management at Kuveyt Türk ATMs. Towards the end of 2017, under BRSA's Accessibility Framework, a Cross Transactions project was developed. The project aims to expand the opportunities under development for disabled citizens to benefit all customers. The Cross Transactions Project aims to allow debit cards to conduct credit card transactions and credit cards to conduct debit card transactions. This feature will apply to cards issued by the Bank as well as other issuers' cards.

SME BANKING

HIGH QUALITY SERVICE, HIGHER SATISFACTION

In 2017, Kuveyt Türk SME Banking expanded its deposits to TL 9.2 billion and boosted its total fund volume by 27% over the prior year.

Among the funds Kuveyt Türk SME Banking Group extended in 2017, business financing accounted for approximately 65%, real estate finance 15%, vehicle finance 9%, KGF 3.46% and leasing finance 3%.

In 2017, the innovative transformation process started in SME Banking, resulting in a structure that analyzes customers more effectively, knows them better, delivers higher service quality and customer satisfaction. Thanks to this revamped structure, customers are segmented and categorized to render the Bank's internal organization more effective.

During the transformation process, which lasted about a year, the Bank segmented customers according to their productivity, size, volume and history; established portfolio management systems; diversified pricing schemes; and introduced an automatic pricing system.

TL 9.2 billion in deposits

In 2017, Kuveyt Türk SME Banking expanded its deposits to TL 9.2 billion and boosted its total fund volume by 27% over the prior year. Of this total figure, TL 5.1 billion is in current accounts with TL 4.1 billion in participation accounts. SME Banking Group concluded the year with a 2.48% share of cash finance transactions across the whole industry, while its share within the participation banking segment was 39.07%.

SME Banking's total loan volume rose to TL 15.4 billion, accounting for 35.7% of total loans in the Bank. Of this total loan volume, TL 12.5 billion is Cash Loans while TL 2.9 billion is Non-cash Loans.

45 thousand new customers

Kuveyt Türk SME Banking's funds extended in 2017 are as follows: approximately 65% for financing businesses, 15% for real estate financing, 9% for vehicle financing, 3.46% for KGF and 3% for leasing financing.

The number of customers of SME Banking went up from 485 thousand at end-2016 to 529 thousand at end-2017 with the transfer of retail customers.

Online Finance System

Online Finance System was launched as a product 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 2017, 1,300 clients accessed a total of TL 242 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 Issuance 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. Within three months, 300 letters provided non-cash facilities with a total worth of TL 15 million.

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. Within three months, 350 bundle sales raised TL 270,000 in revenues.

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. In the leasing with profit share offering, all or some of the financing cost is charged from the seller; the customer who takes out the loan can enjoy installment payments via an invoice that excludes the profit share and commission fee.

Under this new system in its inaugural year, agreements were signed with more than 60 providers, raising TL 7.5 million in profit shares through them, and contributing over TL 20 million into overall leasing transaction 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 supply chain finance product was launched in a real environment by November 2017; and

within the first month, an agreement was reached with one supplier and one buyer, and was logged into the system. The first transaction was worth TL 2,321,095.

Sağlam KOBİ Kart (Sağlam SME Card)

With the Sağlam KOBİ Kart (Sağlam SME Card), Kuveyt Türk allocated funds with up to 12 installments from 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/day, including weekends. Compared to regular business cards, Sağlam Kobi Kart's key differentiating features are that no additional credit limit is needed and branches can immediately print a card using existing credit limits.

To date, 52,440 thousand transactions were performed with Sağlam SME Card, yielding TL 249.6 million in turnover. SME Card reached a cash risk of TL 106.5 million. SME Banking views the card as a strategic product with high potential for the coming year.

Sağlam Dealer Credit Card

Kuveyt Türk's Sağlam Dealer Credit Card is a commercial credit card that gives a systematic structure to the commercial payments and collections among distributors and dealers, allowing for the purchases of goods with payment 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 2017:

- The card had a payment-free period option enabled.
- Although the enhancements were only completed toward the end of 2017, agreements were soon signed with 16 parent companies.
- A clause was added to strike agreements by assignments into sub-dealer portfolios.

Tohum Card...

With the Tohum Kart (Seed Card), which offers deferred payment opportunity in agricultural expenditures according to the harvest period, easy methods are offered to farmers to make payments without difficulty.

- High-risk companies are identified through risk ratings.
- The first transaction worth TL 38,756.16 was executed.

Agricultural Banking

Kuveyt Türk's Agricultural Banking products provide support to customers registered in the Farmer Registry System and who demonstrate financial need in the agriculture and livestock sector. 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. In addition, the Bank helps farmers applying to TKDK (Agricultural and Rural Development Support Agency)'s grant support program and TARSİM (Agriculture Insurance)'s agriculture insurance coverage.

In 2017, the Bank's agricultural financing risk reached TL 90 million. Total fund allocations via the Tohum Kart (Seed Card), which gives farmers the chance to make payments at harvest time and repay their loans without hardship, amounted to TL 12 million in 2017. Further work is underway to develop alternative new products and to reach more farmers.

DBS-DTS (Direct Lending - Collection System)

DBS is a payment system where primary companies who grant franchise licenses or work with dealers and distributors can guarantee their collections while dealers enjoy various payment

SME BANKING

Kuveyt Türk supports customers registered under the Farmer Registry System who require financial support for agriculture and livestock industry through its Agricultural Banking products.

In 2017, the total volume of the DBS system increased an impressive 100%, inching close to TL 400 million.

solutions. In 2017, the Bank made the following improvements to DBS:

- Branch allocation rates were set for Direct Lending with profit share campaigns, and the profit share facility began to be processed on the campaign assignment screens.
- Each company can now be assigned multiple profit share campaigns.
- It was made possible to pay for the limit allocation fee in installments.
- The revenues from limit allocation commissions were distributed among branches.
- The development work to enable DBS bill entries and reporting via the Internet Branch was concluded.

Thanks to these improvements completed during the year, the total volume of the DBS system increased 100% to TL 400 million. In 2017, the number of DBS main firms rose 160% to 216, while the number of dealers reached 2,801, by 350% increase. DBS recorded 40,349 invoice submissions over the system, which helped save 55,500 hours of work.

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 2017, the number of active schools on installment contracts reached 100 with a 56% increase.

The number of parents/guardians involved in the scheme grew 18% to 3,100. Moreover, School Installments System involved funds totaling TL 37 million, indicating a 25% year-on-year increase.

In 2017, under the university fee collection scheme, the number universities contracted rose from two to four. The total number of parents/guardians involved in the schemes at these universities reached 3,760, a 41% increase. The total volume of the scheme reached TL 51 million with a 45% increase.

Fixed Tariff POS

This solution allows contracted merchants to collect on the next day, in return for a fixed monthly fee, the payments for one-off sales made with credit card up to a certain tariff limit, without paying a commission fee. The target user for this scheme is Micro and SME segment clients who prefer to pay a specified monthly tariff. POS with a certain tariff limit reached 3,024 in 2017.

Profit-sharing POS

This business systems infrastructure is designed mainly for customers in the SME segment, which have a smaller credit limit and dealer network than firms participating in the DBS system. A POS agreement is reached with the main company to help dealers divide their transactions into installment payments. The dealer executes payment in installments while the main company collects the payment in advance instead of receiving a commission.

Some 2,434 POS terminals were configured as profit share POS, and the 325 active profit share POS terminals executed installment transactions worth a total of TL 61 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.

Under the Virtual POS integration contract signed with the Revenue Administration, 3,117 Virtual POS were installed at 1,039 tax offices.

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

mPOS

Kuveyt Türk customers with a POS terminal can also use the Virtual POS software via the mobile branch. With the fast, convenient 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 relying mainly on cash transactions but not obliged

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

Kuveyt Türk constantly works to diversify products geared towards financing foreign trade to make them more accessible and better tailored to customers' needs. Kuveyt Türk diversifies its foreign trade finance products each day, boosting its support to export-oriented SMEs and helping Turkey increase its foreign currency revenues.

In order to facilitate Turkey's foreign trade companies' access to potential exporters/importers in overseas markets, there is a joint initiative underway with the Association of Financial Corporations based on the Trade Map for submission to foreign trade clients in collaboration with Islamic Development Bank (IDB).

Furthermore, regarding finance facilities offered to foreign trade companies, with KGF acting as the intermediary, TL 362.5 million was extended for exporters; and TL 422.7 million was extended to importers.

As part of foreign trade innovations, a Foreign Trade Coordination Group was established with the Financial Institutions Unit. The synergy generated by the scheme is expected to boost the volume of international transactions and generate alternative products.

Marketing and Product Development Activities

In 2017, the Bank allocated USD 470 million to help exporter customers meet their financial needs, in the form of products such as Export Guarantee Loan, Eximbank-SÖİK Loan and Long-Term Export Finance.

Aiming to provide more support to exporters within its efforts to develop new export financing products and on commercial receivables insurance, in line with participation banking principles, the Bank held meetings with the Central Bank of Turkey regarding rediscounts. The Bank also met with BRSA and the Association of Financial Corporations regarding cash against documents export transactions to this same end. Work in this area is ongoing. Kuveyt Türk plans to implement the projects in 2018.

A Foreign Trade Working Group has been established within the Association of Turkish Participation Banks under the leadership of Kuveyt Türk. The working group will meet periodically to contribute to the participation banking industry by helping banks share their experience in foreign trade, assess existing practices and work on new products.

Thanks to ongoing efforts in 2017:

- Exporter customer numbers expanded 9%, from 6,792 to 8,120;
- Importer customer numbers increased 3%, from 6,557 to 6,762;
- Branch locations performing foreign trade transactions rose 7%, from 356 to 380;
- Foreign trade commissions jumped 20%, from TL 35 million to TL 42 million.

STRATEGY

FOCUSING ON THE RIGHT GOALS...

All human resources policies and processes are drawn and developed based on the “Employees First” principle and in a way that will bring about experiences to be “So glad” about.

By the end of 2017, a total of 1,662 courses on 514 different chapters were held and the average education duration per employee has exceeded 8.3 days.

The Strategy Planning and Corporate Performance Management Department, Strategic Program Management Office, Branch Performance Management Department, Training and Quality Group Management, Human Resources and Corporate Communications Department operate under the Strategy Group.

The aim of the business plans of the units functioning under the Strategy Sector is 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 reports, and achieve the strategic goals of the corporation.

The main goals of the business plans of the departments operating under the Strategy Group, are planning Bank's strategic priorities, identifying and managing the necessary steps to achieve these plans, through efficient human resource management shaping the Bank's organizational structure and quality management system in line with the strategic plan and priorities, and managing the relationship between internal and external factors in parallel with the Bank's strategic goals.

Strategy Planning and Corporate Performance Management Department

The main responsibilities of the Strategy Planning and Corporate Performance Management Department are: pursuant to the mission and vision of the Bank, to identify the Bank's medium-term, and long term strategies in line with the Board of Directors and the Senior Management's points of view, and conducting goal setting studies with the business units in a coordinated manner, and executing these goals. Updating the defined strategies in line with the changing conditions, thus creating an ideal environment for the Bank to reach its maximum potential is among the priorities.

As part of this task, Strategy Planning and Corporate Performance Management Department develops performance criteria related to strategy's assigned position, administers improvement of the services and gathers, analyzes and interprets the information and the data related to the performance.

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

29 PROJECTS

In 2017, a road map for strategic projects was drawn and monitored via the Portfolio Management Tool. Twenty-nine of the 48 projects included in the road map are already completed.

Also among the functions of the Department is to examine the external factors that can affect the services, to conduct capacity research within the Bank, to analyze both the effectiveness of the services and the satisfaction level, and to conduct general research. 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.

The Bank also aims to research and analyze new business lines that is going to serve the Bank's strategic goals, to evaluate investment opportunities, and to carry on with economic research activities in 2018.

Strategic Projects Management Department

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

To this end, the Bank formulated and started monitoring a strategic projects roadmap via the Project Portfolio Management Tool during the year. Twenty-nine of the 48 projects in this roadmap were completed. Progress was made on the remaining projects as planned, with significant contributions made toward fulfilling the organization's strategy. Some of the projects completed include:

Enterprise Banking: Kuveyt Türk inaugurated the Lonca Entrepreneurship Center to offer technology-minded entrepreneurs opportunities to realize their ideas and to develop them through training and mentoring, and in the first round of applications, 10 projects selected from among almost 600 applications received support. Furthermore, Turkey's first Enterprise Capital Mutual

Fund to invest in technology-oriented start-ups was established under KT Portföy A.Ş. with a view to partner with entrepreneurs and to provide them with capital support. The fund will start investing in 2018.

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

Banking for Foreigners: A strategy study was drawn to improve products and services aimed at a rapidly growing community of foreign customers across all channels, and work was initiated in accordance with the strategy.

A Day in the Field: The project deploying Head Office executives to frontline positions at branches including the counter and marketing desks for a full day to help identify areas for development from a branch perspective produced over 600 strands of feedback and Work is underway to turn these into action.

Accessible Banking: In 2017, 70 branches completed the physical improvements required under the Accessible Banking project, technological upgrades were made to ensure customers receive unhindered access to banking services, all physical environments at branches were made compliant with accessible banking requirements and training provided to staff helped spread the correct attitudes across the Bank regarding disabilities.

Organization and Quality Development Directorate

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

- Conducting customer surveys,
- Conducting projects in order to improve the service quality and resolving customer complaints,
- Conducting improvement projects in order to increase customer satisfaction,

70 BRANCHES

With 70 branches completing the physical improvements required under the Accessible Banking project in 2017, technological upgrades were made to ensure customers receive unhindered access to banking services.

- Correcting, preventing and ameliorating any current or future problems arising from the Bank's products and services via the DÖF (Corrective, Preventive and Remedial Actions),
- Conducting and controlling projects related to ethical banking,
- Evaluating suggestions sent by customers and employees over the Solid 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 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,
- Conducting permanent staff studies, ensuring operations are carried out by an optimized level of staffing,
- Running 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.

STRATEGY

Kuveyt Türk carried out the first Customer Experience Survey in the banking sector in 2017. The survey was conducted in four phases over the year, involving Benchmark Analysis for all the branches and other channels of the Bank.

Studies and surveys conducted in 2017 showed that Kuveyt Türk attained its targets in key areas such as service quality and customer satisfaction. The 68% staff participation rate in the Internal Customer Satisfaction Survey, which included questions on business, communication and general satisfaction, has confirmed employees' trust in the survey.

Studies and surveys conducted in 2017 showed that Kuveyt Türk attained its targets in key areas such as service quality and customer satisfaction. The 68% staff participation rate in the Internal Customer Satisfaction Survey, which included questions on business, communication and general satisfaction, has confirmed employees' trust in the survey. According to the results of the Internal Customer Satisfaction Survey, the general average was 3.54 out of a possible 5 in 2017.

Kuveyt Türk carried out the first Customer Experience Survey in the banking sector in 2017. The survey was conducted in four phases over the year, involving Benchmark Analysis for all the branches and other channels of the Bank.

Customer experience measurements involve a research method that analyzes the impressions and emotions of a selected group of real and potential customers about services they received for selected transactions across the entire range of channels. The survey measures customers' perception about the institution, their emotions about the service they received, and their overall satisfaction.

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

- In 2017, at the ETİKA Competition where EDMER ranks companies according to compliance with ethics-related criteria, Kuveyt Türk

received the Ethics Award for the third year in a row, confirming its commitment to Ethical Banking principles.

- Preparations were made to ensure that newly recruited personnel can receive a one-day in-class training on Ethical Banking.
- In future studies, research elements related to customer experience will be employed to boost customer satisfaction of products and services.
- Ethics Ambassadors selected from each unit and branch, who contribute to upholding and popularizing ethical principles and values, received extensive information on this topic and participated in a workshop.
- The Ethics Committee continued to hold meetings in 2017 and made important decisions in the area of Ethical Banking. Actions were taken to establish permanent solutions on the employee entries to the Ethical Reporting System.
- Improvements were made in the BOA Core Banking System to process internal customer satisfaction requests, enabling staff to pass on compliments, complaints and suggestions about their co-workers to their relevant line manager via the internal customer screens.
- Regarding transaction-focused external customer satisfaction surveys, 20,650 customers responded to surveys on 30 different transactions. The average score of 4 points assigned both for participation rates and survey ratings signify a major achievement.

- In transaction-based surveys among internal customers, 7,232 customers from 33 directorates participated in 61 workflows over the BOA. The resulting achievement score was 4.41.
- Customer satisfaction continued to be measured via NPS surveys to ensure the continuous development of the Bank's service quality.
- Some 2,976 new Solid Ideas were entered into the Solid Idea Platform over the course of 2017. The Platform offers a more user-friendly experience following the enhancement work undertaken.
- Efforts were made to correct, prevent and remedy existing and potential issues in the Bank's products and services through the DÖF (Corrective, Preventive and Remedial Actions) System.
- Some 750 workflows were reviewed and revised under the Workflow Authorization Strategic Project. Staff in charge of approximately 7,000 screens on the Core Banking System were reviewed and updates were made where required. Additional roles assigned to the users were checked and inactive roles were removed from the system, clearing data. Authorizations for almost 100 externally-sourced software were reviewed. Following the implementation of enhancements to the infrastructure, the project was completed in September 2017.
- Enhancement work was undertaken to check and calculate permanent staff measurements over the system. During the year, some departments had their permanent staff calculations made over the system infrastructure.
- In order to determine the workload of operational staff at branches and to correctly assign staff numbers, the branch operational workload reporting infrastructure was updated to reflect the new business model. Correspondingly, permanent staff calculations for the sales staff were reviewed in light of the new branch business model; the segment guidelines and the results were shared with the Human Resources Department to

ensure branches operate on an optimal level of staffing.

- Since the banking trends for 2018 stipulate digitalization and the efficient deployment of workforce, resources were allocated to the IT Department to progress stalled IT enhancement requests from departments that would benefit from digitalization and staff reductions. The team was established with a remit to focus on projects that will contribute both to the transfer of transactions by internal and external customers on to digital platforms and the allocation of workforce where it is needed at the levels it is required.
- The duties and responsibilities of all departments were reviewed and 408 job definitions were revised. Thirty-three jobs were transferred to another unit by evaluating requests for transfer of jobs across departments. Some 804 new documents were created on the Quality Document Management System in 2017, and 884 documents were revised. Further systemic developments are underway.
- 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.

Customer Satisfaction

In 2017, the Customer Satisfaction Center received 103,947 requests in total. A dedicated team was formed under the Call Center Directorate to ensure quick and efficient resolution of requests involving queries, transactions and suggestions. For customer complaints, the average span was less than two business days.

The fact that the number of customer complaints in 2017 remained at a level comparable to the previous year despite increasing number of branches and customers is viewed as an encouraging sign.

750 WORKFLOWS

A total of 750 workflows were reviewed and revised under the Workflow Authorization Strategic Project.

In 2017, the Customer Satisfaction Center resolved requests within 2.27 days on average.

Corporate Communications Department

Operating under the Strategy Group, 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, promote new products and services, which constitutes the main strategic objective.

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

Contributing to the banking sector, Kuveyt Türk made significant social responsibility projects within the social values and protects cultural properties. Corporate social responsibility—one of our top priorities—is of strategic importance for the brand's corporate communications efforts. In 2017, the Bank continued executing social responsibility projects that add value to the society. Several valuable projects were implemented in the areas of people, environment, education, culture and arts, and restoration. Social responsibility was designated as the most critically important corporate communications theme for Kuveyt Türk, a brand built on the culture of foundations.

STRATEGY

The Corporate Communications Department is guided by an awareness of its corporate social responsibilities. Written into the Bank's mission statement, this acute awareness of social responsibility constitutes the foundation of communication activities.

As the pioneer and leader in gold banking, Kuveyt Türk conducted digital and outdoor advertising campaigns throughout the year to boost participation in the Gold Days held at branches.

2017 saw several corporate social responsibility projects conducted, adding value to the society. Most recently, the "Helping Hand to Rakhine" project run in collaboration with the Turkish Red Crescent aimed to help alleviate the suffering of victims of the conflict and persecution in Myanmar to a certain extent.

The cooperation with the children's cancer charity KAÇUV for the "Support the Hope" project continued in its fifth year. Development and sustainability in this area will continue at a rapid pace.

Advertising campaigns were another focus area for the Corporate Communications Directorate in 2017. The Bank released the commercials for its recently launched credit card brand Sağlam Kart across national TVs and other digital channels in February. With its "Go for solid finances, safeguard your pocket" tagline, the language of the campaign corresponded with Kuveyt Türk's overarching "Sound Banking" approach.

As the pioneer and leader in gold banking, Kuveyt Türk conducted digital and outdoor advertising campaigns throughout the year to boost participation in the Gold Days held at branches.

The gold banking commercials which were originally broadcast in 2016 were re-run on national TV channels in third quarter on 2017. During the month of Ramadan, a special commercial with the tagline "When Ramadan arrives, it touches

everywhere" ran on national TV channels. Attaching huge importance to innovation and technology, Kuveyt Türk promoted the products developed in this field through six digital commercials.

Human Resources Department

Seeing its human resources as its most valuable asset, Kuveyt Türk continued to invest in the HR area uninterrupted in 2017. Our Human Resources Department pays special attention to shape its processes in line with the standards of the current HR standards, and aims to make sure that the new employees that become part of the Kuveyt Türk Family embrace the Kuveyt Türk's banking principles and have a good work ethic that is in line with our values.

As a key component of efforts to strengthen the overall brand strategy, Kuveyt Türk launched its new employer brand "So glad" in 2017. This brand emanates from the idea that only satisfied staff can achieve satisfaction in customer experiences, and was created by analyzing the values that make Kuveyt Türk an ideal employer for employees and candidates, as well as staff feedback.

Thus, visual and content integrity were also extended to internal communications, and the internal communication activities were based on a strategic plan. All human resources policies and processes are drawn and developed based on the "employees first" principle and in a way that will bring about experiences to be "So glad" about.

SUPPORTING KAÇUV

The cooperation with the children's cancer charity KAÇUV for the "Support the Hope" project continued in its fifth year.

Recruitment Process: Kuveyt Türk's Recruitment Team that stands out with its experience and competence uses the most reliable HR techniques and manages the recruiting processes effectively.

The recruitment process starts with online interviews which started in 2014 and it continues with English proficiency tests. The candidates who finalize this processes are evaluated by the Assessment Center.

There, the recruitment process is conducted with inventories, competence-based interviews, general ability tests, group interviews, case studies, personality tests; also, the evaluation about Kuveyt Türk's core competence is carried out.

The Assessment Center evaluates candidates' presentation skills and uses group work, role playing, case studies, personality inventory and other techniques to observe their level of compliance with the core competencies demanded by Kuveyt Türk. In 2017, the most important action used by the Career and Recruitment Team to enhance the measurements in the recruitment process was the Talent Q Personality Inventory. This tool, introduced in 2015, has 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, Kaşif (Explorer) in 2017 to run alongside Campus at the Bank scheme which has been ongoing since 2008 in line with these targets. Successful graduates of the program 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.

Kuveyt Türk continued to recruit highly qualified young candidates. During the year, the Bank launched the Adaptation Project so that 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 well-experienced staff who can provide guidance to the new hires.

Social Activities: 2017 served as a year when the teams and clubs (Sports Club, Travel Club, Photography Club, Social Club, Hobby Club) within Kuveyt Türk were very active. As well as staff activities such as excursions to various cities and sports competitions, clubs are continuing to flourish through initiatives such as Unplugged Computer Sciences Workshop for employees' children.

As part of club activities, the Bank organized a series of meetings, exhibitions, concerts, excursions and other events open to participation by all employees. As of year-end 2017, 350 personnel are active members of these clubs.

The competition "Paintings by Small Hands," first held in 2016, was held for the second time. Highlighting the achievements of Kuveyt Türk employees' children, this event has once again underscored the importance given by the Bank to family values.

Performance Development: Kuveyt Türk supports its managers and employees in their continuous development process through performance evaluations conducted transparently based on competencies and measurable targets as well as regular feedback. The Portfolio Management System allows branch employees to receive their monthly and annual performance scorecards in a more convenient fashion. The Bank began to assess the performance of the overall organization and the Head Office Departments in line with the balanced scorecard model, which is

"STARS"

Performance Stars

Awards are handed out to employees for their achievements with the objective of obtaining a sustainable performance chart.

part of the corporate performance management project, and also to track and report the scorecard developments and trends at quarterly intervals.

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

Performance Stars Awards are handed out to employees for their achievements with the objective of obtaining a sustainable performance chart.

Developed as a 360-degree performance measurement tool that will guide human resources practices, the "Biz Bize" survey system allows the Bank to evaluate employees' competencies in a multidimensional manner. The methodology includes an assessment of subordinate, superior and peer relations and constitutes a new channel through which personnel can communicate their ideas. These surveys are sent to the Bank's employees on a regular basis with the slogan "One Minute for Development." Data analysis is conducted based on the responses received with action plans developed accordingly.

Compensation: Kuveyt Türk's compensation management system is designed to motivate employees to perform beyond their assigned objectives, to identify employees performing at different levels, and

STRATEGY

Training and Development programs are conducted in light of key principles underpinning Kuveyt Türk's vision and competitive strategy, namely ensuring Service Quality, Human Resource Quality and Competitive Edge through Utilizing Technology.

Reviewing business processes across the board with a focus on development, identifying areas of improvement, and implementing new business practices that will carry Kuveyt Türk forward, the Employees First Council continues its activities with its innovative perspective.

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

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

- Launched in 2015, the "Working from Home" model helps female staff strengthen relationships with their children and boosts women's employment by offering flexible work hours. Viewing motherhood as sacred, the Bank gives an off-day to mothers on the day their children start the first year of primary school.
- To ensure the comfort of employees, Kuveyt Türk introduced the summer clothing scheme in the branches in 2014. The Bank continues to implement this practice, which is seen as an innovation in the banking sector.
- Marking an unprecedented move in the industry, the flexible fringe benefits scheme Sepetim (My Basket) was launched in 2017.
- Kuveyt Türk believes that it must provide a pleasant, peaceful working environment for personnel to enhance service quality. Accordingly, disabled and pregnant employees are granted a leave of absence during times of inclement weather.
- In order to share the feeling of national unity and enjoy pleasant memories, the Bank started holding Soldier Farewell Ceremonies in 2016, where employees about to embark on their military service are given a warm send-off by all their colleagues.
- Executives and managers spent a day working at various positions, from the counter to 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 implementing new business practices that will carry Kuveyt Türk forward, the Employees First Council continues its activities with its innovative perspective.
- Acting on the principle of "Happiness grows when shared," two new initiatives were launched to capture and 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.

SEPETİM

Marking an unprecedented move in the industry, the flexible fringe benefits scheme Sepetim (My Basket) was launched in 2017.

- The launch of the “İyi ki” (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 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 also launched to revisit and reminisce about our most cherished memories many years later and to make a pleasant mark on this celestial sphere.
- These workplace initiatives were reciprocated by employees and just like in 2016, the Bank emerged as the top performer among KFH Group companies in 2017 with an 82% engagement rate in the Employee Engagement Survey ran by KF Hay Group. In 2018, the Bank aims to sustain this score which is 14% above the world average and 9% above highly productive companies.

The goals of the Human Resources Department for 2018 are as follows:

- 2018 is set to be a year marked by enhanced internal and external communication of the employer brand and the initiatives that prompt a “So glad” response.
- Kuveyt Türk Human Resources completed fiscal year 2017 with activities based on the slogan “So glad.” In 2018, the Department plans to focus on the “My Basket”

fringe benefits scheme, a first in the banking sector. 2017 was the first year of the “My Basket” initiative. The My Basket scheme will be expanded every year with new products that 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 digitalize. In 2018, work towards HR analytics will be continued through the development of systemic processes, utilizing big data.
- Trusting employee productivity to be enhanced through appreciation and rewards, Kuveyt Türk will concentrate on short-term reward schemes in 2018.
- The Department will also develop projects to become a center of attraction in the sector. Internally, the Bank will continue to invest in its most important asset, namely the workforce, guided by its “Employees First” slogan. Externally, the Bank plans to continue building a “More Beautiful Kuveyt Türk” viewed by candidates as the “School of Sound Banking” where everyone would be pleased to work. 2018 is set to see increased initiatives that prompt a “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.

MOZAİK

Embracing the adage “The palest ink is stronger than the sharpest memory,” a new magazine called Mozaik (Mosaic) was also launched to revisit and reminisce about our most cherished memories many years later and to make a pleasant mark on this celestial sphere.

- Kuveyt Türk is committed to remaining a center of attraction within the banking sector with its “Swift Career” opportunities and “Competitive Salary Package.”

Training and Development

Our Training and Development programs are being carried out under our main principles of Quality of Service, Quality of Human Resources and Technology Utilization.

Therefore, in order to implement the competitive strategy of boosting human resource quality, learning and development activities began to be 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.

STRATEGY

Regarding Information Technologies, 307 employees received an average of 8.8 days of training for professional and personal development.

In order to implement the competitive strategy of boosting human resource quality, learning and development activities began to be conducted under the brand name of Kuveyt Türk Banking School.

8.3 DAYS

As part of the Banking School project, Kuveyt Türk organized 1,662 classroom-based training courses covering 514 topics, and the average training per person was 8.3 days.

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.

By analyzing the development requirements of employees from entry level to every other stage in their career with the Banking School, 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 market and industry surveys were utilized to chart the learning journeys.

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

- Basic Banking for all new recruits,
- Sales and Credits for introducing 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.

Kuveyt Türk pays particular importance to the personal and professional development of its staff in order to sustain the productivity

of its human resources. By the end of 2017, a total of 1,662 courses on 514 different chapters were held and the average education duration per employee has exceeded 8.3 days.

Some 517 newly recruited staff attended Core Banking Training Journey, which includes programs 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 the Bank's culture and structure.

Kuveyt Türk initiated programs to attract high-potential candidates to the Bank in the second half of the year. Twenty-seven days of in-class training and 30 days of on-the-job training were held during the six-month training process.

Some 470 further employees were given courses in Credit Training for sales staff to improve their technical knowledge of sales, credit, risk, banking, finance through financial analysis, fiscal analysis procedures and balance sheet-based credit packages.

Operational improvement training programs were held to improve the professional knowledge, skills and competencies of operation managers, specialists and tellers with a total of 425 employees receiving five days of training on average. Furthermore, of the branch business model, a new Customer Relations Management (CRM) program

involving sales skills and drawn by internal trainers was launched, and 120 people received the two-day training.

New certificate programs in line with our renewed career certificate policies were also introduced. Two-hundred employees were given PPS education out of which 332 were awarded with certificates. A total of 185 employees were given SPL courses with a total of 496 earning their SPL Certificates. As for Foreign Language training, 242 employees joined the TOEFL education program while conversation clubs were organized to take the speaking ability of 145 participants to the next level. In 2017, the second edition of English Debate Competition and finals for the conversation clubs were held. A total of 385 employees hold a TOEFL certificate as of December 2017.

Regarding Information Technologies, 307 employees received an average of 8.8 days of training for professional and personal development.

The Bank implemented the Branch Director's Handbook which was prepared in 2016 to guide branch directors by setting the standards in branch management and cultivating a shared management perspective and organizational culture. Accordingly, 145 branch managers received the 3-day "Branch Manager Road Map" training, followed by tracking and monitoring by the regional director, accompanied by a consultant.

In 2017, 78 Head Office executives and branch manager candidates were included in the Assessment and Development Center scheme. Forty-two employees joined the four-module 25-day Career Development Program aimed at branch director candidates. Sixty-six people working as executives at the Head Office received a 6-day training to enhance their managerial skills. Training sessions will continue in 2018.

One hundred sixty-four persons from the operation staff were invited to the Sales Assessment and Development Center; 108 of them were transferred to the sales team. The development work to incorporate the mentorship project supporting the exchange of business experiences into BOA was 90% complete and it was actively utilized for employees in the branch directors pool in the fourth quarter.

The Bank initiated a mentorship project to help employees share their experiences in the workplace. Newly recruited staff that completed their 180-day adaptation process were assigned mentors and interviewed complete with various on-the-job training topics. Personnel in the Branch Director Candidate Pool were assigned branch directors as mentors and given on-the-job learning experience.

Kuveyt Türk believes in effective utilization of our human resources, and in line with this principle assigns its expert staff to instructional

385 EMPLOYEES HOLD A TOEFL CERTIFICATE

A total of 385 employees hold a TOEFL certificate as of December 2017.

accreditation. In 2017, the internal/external educational programs ratio was 70%. Our instructors' evaluations are carefully considered and given feedback.

The infrastructure for the Digital Learning Management System LMS was renewed at the beginning of 2017. The system was initially available to only orientation groups in March, but began to provide digital content to all users as of September 2017.

The system has approximately 500 active components of content. These are namely interactive, scorm-compliant training material, green box training videos featuring trainers, animated training videos, records of case studies, audio recordings and PDF files on professional and personal development.

Out of these, the employees were assigned 92,529 person x training and the number of training components they signed up for was 76,343 person x training. Hence, online training participation was 82%.

TREASURY AND INTERNATIONAL BANKING

POSITIVE CONTRIBUTION TO GROWTH AND PROFITABILITY

In September 2017, Kuveyt Türk set a new record in the participation banking industry with a sukuk issuance worth TL 400 million and a 106-day maturity.

The Bank issued a total of TL 2.3 billion in 2017, concluding the year with a sukuk issuance balance of TL 1.1 billion.

The Corporate and International Banking Group, made up of Corporate Marketing, International Banking, the Treasury Group, Investment Banking, Performance and Product Management as well as Overseas Branches and Subsidiaries, strives to sharpen the Bank's domestic competitive edge, by offering customers a wider array of high quality products and services. The Group is progressing toward regional structuring in line with Kuveyt Türk's strategic targets. In 2017, the Group contributed to the Bank's growth and profitability.

Treasury Group

In charge of the management of the Bank's liquidity and market risks, the Treasury Department continued to manage risks and pursue a profitability oriented approach in 2017. Despite high volatility in global markets and increasing competition in the domestic arena, Kuveyt Türk increased its foreign currency trading profitability in 2017.

In 2017, Kuveyt Türk is the first participation bank to be a market-maker in the BİST Precious Metals and Stones Market (KMTP).

Kuveyt Türk not only achieved success in gold transactions, but also ranked first in silver trading and gold trading volume.

Kuveyt Türk remains the leader of foreign trade in standard gold and silver bullion. In 2017, the Bank accounted for almost one-fourth of Turkey's gold export and import volume. Kuveyt Türk is also responsible for nearly half of Turkey's total silver import.

The sale of Kuveyt Türk-designed bullion gold at international standards, which started in 2015 as a first for a Turkish bank, continued in both domestic and overseas markets in 2017.

Assets and Liabilities Management Department:

This Department primarily aims to manage risks arising from mismatch between liquidity and maturity in the balance sheet of the Bank due to various banking activities. Hence, transactions in treasury and capital markets are conducted by means of products compatible with the corporate principles. In 2017, the Department was divided into four sub-units: Money Market Desk, Capital Markets Desk, Sukuk and Syndication Desk and Treasury Marketing Desk.

Money Markets Desk: Access to markets among domestic and overseas banks helps the Bank manage its liquidity effectively. For this purpose, the Bank carries out liquidity management transactions on the interbank markets by means

MARKET MAKER

In 2017, Kuveyt Türk is the first participation bank to be a market-maker in the BİST Precious Metals and Stones Market (KMTP).

Domestic/Foreign	Export Amount	Export Date	Amortization Date	Annual Accounting Rate of Return	ISIN Code
Domestic	TL 80,000,000.00	11.01.2017	12.04.2017	10.45	TRDKTVK41710
Domestic	TL 250,000,000.00	14.02.2017	25.05.2017	10.75	TRDKTVK51719
Domestic	TL 150,000,000.00	07.03.2017	15.06.2017	11.00	TRDKTVK61718
Domestic	TL 35,000,000.00	29.03.2017	29.03.2019	Not Stable	TRDKTVK31919
Domestic	TL 150,000,000.00	12.04.2017	06.10.2017	11.50	TRDKTVKE1716
Domestic	TL 40,000,000.00	18.04.2017	06.10.2017	11.56	TRDKTVKE1724
Domestic	TL 280,000,000.00	25.05.2017	16.11.2017	12.00	TRDKTVKK1718
Domestic	TL 170,000,000.00	15.06.2017	19.09.2017	12.00	TRDKTVK91715
Domestic	TL 100,000,000.00	10.08.2017	08.11.2017	12.10	TRDKTVKK1726
Domestic	TL 80,000,000.00	14.09.2017	13.09.2018	12.45	TRDKTVK91814
Domestic	TL 400,000,000.00	18.09.2017	03.01.2018	12.00	TRDKTVK11812
Domestic	TL 180,000,000.00	06.10.2017	17.01.2018	12.10	TRDKTVK11820
Domestic	TL 120,000,000.00	08.11.2017	06.02.2018	12.10	TRDKTVK21811
Domestic	TL 250,000,000.00	16.11.2017	16.03.2018	12.30	TRDKTVK31810
Domestic	TL 45,000,000.00	19.12.2017	16.03.2018	12.20	TRDKTVK31828
Total	TL 2,330,000,000.00				

of 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 solid capital structure and access to financial institutions in the Gulf Region.

Branch cash balances were considerably reduced through the measures implemented to utilize the cash assets held at branch vaults effectively, and further efforts were made to sustain the practice.

Kuveyt Türk started up banking activities in Germany to expand its overseas operations and create cost advantages, to share and transfer key knowledge, skills and experiences on developing products for subsidiaries and managing, utilizing and obtaining liquidity.

Capital Markets Desk: In 2017, Kuveyt Türk increased the share of the securities portfolio in its total assets from 7.50% to 8.50%. As one of the most active banks in both the primary and secondary sukuk markets, the Bank stepped up its communications with domestic and international market players during the year. Constant provision of bidirectional pricing in BIST and

OTC markets helped to boost liquidity in the sukuk market, as well as supplying a new entry in the Bank's trading profits for the product. The Desk also actively managed the Bank's sukuk portfolio composition in order to maximize the risk/return ratios in line with the growth forecast for market rates in 2017.

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 its long-standing and sound collaborations with international finance markets, and its experience and solid know-how of various sectors, business lines, transactions and products.

In 2017, Kuveyt Türk continued its efforts for gaining maturity and price advantages through diversifying its funding sources, thereby boosting its competitive edge and enabling the provision of finance facilities at a lower cost and longer term for its clients.

The Bank issued a total of TL 2.3 billion in 2017, concluding the year with a sukuk issuance balance of TL 1.1 billion.

GOLD AND SILVER

Kuveyt Türk not only achieved success in gold transactions, but also ranked first in silver trading and gold trading volume.

Kuveyt Türk set a new record in Turkey's participation banking industry for the highest value single-issue sukuk export in TL denomination with a sukuk issue worth TL 400 million on a 106-day maturity in September 2017.

Successfully expanding both the range and volume of local and international financial products in the field of sukuk and syndication transactions with its pioneering and innovative approach, Kuveyt Türk maintained its position as the industry leader in 2017 as in the previous year despite a highly competitive climate.

Foreign Currency and Precious Metals Unit: The Unit is in charge of managing the Bank's foreign currency risk and marketing treasury products; and providing foreign currency and precious metals pricing services to clients and branches.

TREASURY AND INTERNATIONAL BANKING

Kuveyt Türk continued to be the leader among banks with the highest gold trading volume in the Borsa İstanbul (BIST) Precious Metals and Stones market.

The Foreign Currency and Precious Metals Department determines the prices for treasury and financial market products in international markets, such as foreign exchange spot and gold.

The main strategy of the Foreign Exchange and Precious Metals Department is to increase transaction volume and profitability in financial market products. Transaction limits, transaction volumes and profitability of the products are regularly monitored by the Department.

The Department holds training sessions for branch staff in coordination with regional directorates and works to raise awareness about treasury transactions and products. Furthermore, it runs efforts to expand the client base and increase transaction volume and revenue through visits to potential treasury customers selected on branch advice. The Department also actively manages portfolios of Treasury's private banking clients, thus contributing to Kuveyt Türk's standing among the leading banks in this field.

As a result of the work initiated in 2016, an electronic trading desk was established to meet the technological requirements of developing and evolving financial markets. Hence, the Department took another pioneering step in the industry by commencing spot trading in foreign exchange and precious metals markets.

The Department also created the infrastructure to conduct foreign exchange and precious metals transactions on alternative distribution channels on a 24/5 basis. The scheme accommodates customers who need to perform

transactions out of office hours, and marks another unprecedented step in the industry.

Treasury Marketing Department:

The Treasury Marketing Department closely monitors the performances of shares, foreign currencies, precious metals, investment funds, sukuk that have Kuveyt Türk Treasury products and organizes special pricing for customers in different segments in coordination with the sectoral marketing departments, prepares collaborated works and campaigns with the sectoral marketing departments from other segments to increase sales volume and income.

The Department continues to digitize product trainings. It takes a leading role in IT projects to make sure Treasury products are managed in a more risk-free and efficient manner in the BOA Core Banking System. Branch/regional sales and coordination representatives were given mobile access to the Treasury Customer Value and Behavior Segmentation Report summary to provide them with numerical information on customer transactions, an awareness of transaction behaviors of Treasury customers, and a means to identify instant marketing actions in line with customer preferences. The data from the Treasury's Value and Behavior Segmentation Report also began to be fed into the database for custom audience creation. Thus, it has now become possible to generate special bundles aimed at Treasury customers, alongside customized product and service packages.

The Department also completed the Treasury Automatic Pricing System (OFS) Project based on output from the Value and Behavior Segmentation, and Segment Marketing Department. The OFS project will come online in January 2018.

The Department delivered a presentation at the World Islamic Banking Conference on the importance of participation-based individual and wholesale gold products and services in participation banking. 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.

Sukuk issuances, sukuk trading and mutual fund trading were performed for the investment accounts opened at the Bank. As of the end of 2017, revenues generated from mutual fund management fees approached almost TL 580,000. In 2018, the Bank aims to increase the revenues obtained from investment accounts in line with the progress in capital market products.

In 2018, the Treasury Marketing Department plans to help expand the Bank's customer base and market share and increase customer satisfaction in an increasingly competitive environment. This will be accomplished with new products focusing on the needs of customers, alternative distribution channels, a customized, 24/5 accessible, competitive Automatic Pricing System, a more analytical approach and diversified service quality, increasing the market share and the number of customers and enhancing customer satisfaction.

The Financial Institutions

Department: The Department has two units. The Country and Bank Limits Management Service and Correspondent Relations Service. The reorganization followed an increase in the Department's responsibilities and headcount.

Correspondent Relations Service: Its primary aim 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 issues 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, the expansion of this network of relationships is another of the main tasks of the service. Efforts to this end are based on 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 deeply-rooted and close relationships to engage in direct sales and marketing to correspondent banks, thereby contributing to the profitability of the branches and the Treasury Department. 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 made visits to several countries in Europe, the Middle East, Asia and Northern Africa in 2017. These visits not only increased the Bank's brand recognition and reputation but also boosted interest in foreign trade, treasury products and borrowing instruments, which had a positive effect on volumes and profits.

24 HOURS, 5 DAYS

Kuveyt Türk also created the infrastructure to conduct foreign exchange and precious metals transactions on alternative distribution channels on a 24/5 basis.

The Financial Institutions Department attended the SIBOS Banking Event held in Canada in 2017, representing Kuveyt Türk for an eighth year running alongside its parent company Kuwait Finance House. Over 40 banks and financial institutions convened. The Bank held business development talks with both existing and potential correspondent banks. Kuveyt Türk had the chance to expand its network of relationships and receive first hand, up-to-date information on the latest global trends in banking.

The Correspondent Relations Service is also charged with first phase responsibilities in managing the Bank's Nostro/Vostro accounts and fulfilling the international compliance controls. The accurate and efficient management of Nostro/Vostro accounts positively contributes to both profitability and customer satisfaction. In addition, the Correspondent Relations Service plays a primary role in the Bank's efforts to fight against money laundering and terrorism financing. Kuveyt Türk is extremely conscientious in complying with international compliance processes and procedures, whose importance has grown significantly in recent years.

The Correspondent Relations Service manages the processes related to contracts signed by the Treasury Group units and domestic/international financial institutions. It focuses on the efficient and productive management of these processes, analyzing these

TREASURY AND INTERNATIONAL BANKING

Kuveyt Turk has acted as an intermediary and consultant for many different transactions financed from the Gulf Region to date.

Country and Bank limits are managed by the Country and Bank Limits Management Service operating under the Financial Institutions Department.

agreements in terms of both participation banking principles and international legal responsibilities. The aim is to ensure that all the necessary controls are fully in place.

Country and Bank Limits Management Service: Country and Bank limits are managed by the Country and Bank Limits Management Service operating under the Financial Institutions Department.

The management of country and bank limits has become a more systematic and comprehensive process due to the importance recently placed on this issue by both Basel III and BRSA. BRSA issued three best practice guidelines on Counterparty Credit Risk, Country Risk Management and Concentration Risk Management, suggesting that banks should harmonize their internal processes with these guidelines. Kuveyt Türk's portfolio of over 85 countries and almost 400 financial counterparties further adds to the importance of this process. The Bank constantly exchanges data with the international information organizations of which it is a member, with the aim of pursuing the ever-changing agenda and portfolio.

The Country and Bank Limits Management Service monitors developments in the international

markets on a daily basis, issues regular country reports and reviews bank limits annually.

Having completed its organizational structuring, the service has started acting in conjunction with the Risk Management Department and Corporate Loans on common issues. Requests from the Treasury Department and branches pass through a preliminary evaluation by the service and are then sent to Corporate Loans for allocation. The allocation, monitoring and review processes for the country limits are coordinated with the Risk Management Department.

The Country and Bank Limits Management Service has completed IT infrastructure development project feasibility studies in the core banking and reporting areas. Projects related to country and bank limit screens and reports will continue in 2018, quickly and intensively. The service established an internal bank valuation system to develop a counterparty credit analysis and valuation infrastructure. In addition, work has started on a Stress Test application that will be used for consolidation with subsidiaries and analysis of the existing portfolio. The compliance process with the relevant BRSA communiqués is ongoing with new practices introduced by Basel integrated in both the process and IT phases.

FINANCIAL AFFAIRS

ANALYTIC MANAGEMENT AND ACCURATE INFORMATION

Budget and executive reporting processes play a vital role as Kuveyt Türk expands its financial network and underpins its growth with profitability.

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

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 are among the primary duties of the Financial Affairs Group.

Operating just like a command and control center, the Financial Affairs Group's functions are:

- Establishing effective budgeting and reporting system with the correct data for credible management,
- Producing timely reports of correct 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,
- Prompt reporting of the detected problems for instant intervention and correction,

The Financial Affairs Group includes the Accounting, Financial Control, Budget and Management Reporting, and External Reporting Departments.

It fundamentally aims at performing these functions with an outstanding service quality, along with its solid technological infrastructure and expert 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 has seven important 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 carried out 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:

- Registering, classifying, summarizing, reporting, analyzing and interpreting the Bank's monetary transactions,
- Tax and consultancy,

FINANCIAL AFFAIRS

The Accounting Department enhanced its service quality by developing appropriate and inovative solutions, drawing on its know-how and experience and working as a solutions center throughout 2017.

Any financial transaction and event that can be expressed monetarily is considered within the realm of accounting. The users of financial information get data from the produced information.

- Registering the Bank's all cost and fixed asset bills and documents, and performing the necessary payments
- Cost and budget distribution,
- Accounting support and TDHP compliance,
- Accounting, auditing and reporting for treasury transactions, domestic 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,
- Functioning of the Bank's accounting system,
- 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 corporation,
- Accurate distribution of expenses in the scope of cost management,
- Follow-up of limited expenses,
- Payment and control of the Bank's expenses and costs.

The Accounting Department has 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 has thus helped to speed up transactions and contributed to the profitability of Kuveyt Türk.

Any (financial) transaction and event that can be expressed monetarily is considered within the realm of accounting. The users of financial information get data from the produced information. Some of the crucial functions of the Accounting Directorate within the organization of the Bank are:

- Following the Banking Law, TAS, BRSA regulations, tax laws and other related legislation regarding accounting applications and accounts charts, and making necessary adjustments,
- Transferring the basic financial transactions into the accounting system within the financial year, making systemic improvements, performing financial statement work,
- Ensuring correct distribution of costs to the units and branches as a part of budget cost management, administering the monitoring and control of the limited spending item,
- Making systemic changes following accounts chart amendments, ensuring accounts chart compatibility, following accounting policies and policy changes, as well as ensuring compatibility with them,

AUTOMATION

Most of the manual transactions are automatized within 2017 through systemic infrastructure works.

- Conducting asset leasing companies' transactions, preparing financial statements, following legal and tax-related transactions,
- 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 providing their continuance,
- Providing support to product development units in areas of technique, tax, accounting and finance for newly released products and services,
- Consulting in tax, financial legislation, accounting applications that come from the units and branches, producing rapid and permanent solutions, making refinements,
- Supporting the Customer Satisfaction Unit in systemic developments in order for it to effectively and quickly meet the demands coming from foreign clients,
- Monitoring the R&D Department's spending and costs as a separate department, conducting reporting work for the Tax Office and the Ministry of Industry in order to utilize the R&D tax incentives,
- Monitoring treasury forward, swap, precious metal futures, spot transactions, making truthful assessments according to the TAS and tax laws,
- Assessing the Bank's foreign currency and precious metal status calculation, making status transfers and controls,
- Ensuring the conduct and finalization of the interim period 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,

- Submitting reports that are relevant to its area of activity to the administration of finance, the CBT, the SDIF, courts, experts, CPAs, performing the required work for investigations and audits,
- Preparing the financial balance sheet and the income statement,
- Conducting and reporting deferred tax work within the scope of corporate income tax and TAS,
- Performing work for internal and external supervision, systemic supervision, tax and financial supervision, communicating with the tax office.

Throughout 2017, the service quality was improved with a sense of resolution center by developing appropriate and new solutions in light of knowledge and experience. In this regard, most of the manual transactions were automatized within 2017 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; reports were prepared by making progress in the prevention of spending that exceeds the limit.

Budget items and accrued items are compared; software development studies were conducted to allow for analysis and reporting.

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

It will continue to produce accurate and fast information for the Bank within the framework of the information system feature, and basic concepts of accounting, and governance and its rules, to improve efficiency by ideally following technological developments, domestic and international legislation, to elevate the domestic

CONTROL

Budget items and accrued items are compared; software development studies were conducted to allow for analysis and reporting.

and foreign customer satisfaction to higher levels, to support innovative product development processes, and work devotedly.

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.

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 Financial Control Department are as follows:

Functions of the Financial Control and Risk Analysis Unit

- Establishing and developing a sound accounting infrastructure, and performing effective financial and accounting controls for the punctual preparation of the Bank's internal and external reporting with accurate and credible data,
- Ensuring the instant detection and correction of mistakes through daily, weekly and monthly periodic controls in order 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 within the scope of IFRS 9; for that purpose, making sure that the relevant units apply and monitor the contractual cash flow test (SPPI),

FINANCIAL AFFAIRS

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

Financial Control Department makes significant contributions to the corporate development of Kuveyt Türk by constantly improving its own processes and control points with its expert and dynamic staff.

- Monitoring and controlling the compliance of all financial activities to the Bank's business model,
- Measuring the financial assets' expected credit loss (ECL), calculating and reporting the impact of changes through the application of staging and override functions with scenarios/models,
- 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,
- Ensuring the applicability of early warning systems by analyzing current control reports concerning financial controls,
- Creating new control points, developing existing products and overseeing the necessary accounting and system infrastructure work for the introduction of new products.
- Implementing the unit value and profit sharing structure according to the regulations and rules published by BRSA, and performing systematic 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 system.

Participation Funds Management and Data Analysis Unit

- Supporting Senior Management in the decision-making process by conducting various analyzes and simulations for the management of the Bank'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,

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,
- Controlling whether the Treasury's transactions are within the set limits (including dealer and platforms),
- Controlling the CBRT Open Market Operations and making profitability analyses,
- Checking whether the Treasury conducts the 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 accuracy of margin calls in counter banks,
- 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 our parent company, Kuwait Finance House.

Functions of the 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 the risky situations or those that require improvement detected during cost optimization work with the management and the relevant process owners, making requests for taking measures and actions,
- Regarding the expenses within the scope of expense management, ensuring the expense analyses through daily, weekly and monthly controls for the detection of extraordinary ones, notifying the management and the relevant process owners of these information, 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, goods and services, purchases, lease payments and related contract requests that are above a certain amount or that will exceed the budget, depending on their compatibility.

Aside from this, it 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 Directorate aims to contribute more to Kuveyt Türk's attainment of its strategic targets in 2018. The Bank intends to raise savings awareness and ensure the efficient use of resources, increase the efficiency of controls by making use of information technologies, and issuing the Bank's profit and loss statements on a daily basis.

Budget and Management Reporting Department:

In terms of the monitoring and decision-making functions of senior management, budget and executive reporting has been vital for Kuveyt Türk, which increases the number of branches every day, improves by the organization, expands by the financial network built abroad, and most importantly supports its growth with profitability according to strategic goals. These processes are conducted by two subunits. It also aims to issue the Bank's profit and loss statements reliably on a daily basis.

Budget Planning and Monitoring Unit:

Preparing the budget in line with the strategic goals, monitoring the compliance of branch, sector, 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 making the Bank's financial and executive integrity sustainable are among the responsibilities of the Department.

FINANCIAL ANALYSIS

The subsidiaries of Kuveyt Türk are followed up on a comparative basis and their financials are analyzed.

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 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 benchmark requests are met in the consortium with the budget comparative report sets made to 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: In order to have the senior management monitor the Bank's performance in a safer, faster and in technology-based manner, Management Reporting Unit was formed during the restructuring of the Budget and Management Reporting Department.

FINANCIAL AFFAIRS

In 2017, the External Reporting Department of Kuveyt Türk fully and rapidly responded to the reporting needs of institutions, organizations and individuals with which it cooperates in Turkey and abroad. Report requests were met in a timely and accurate manner.

The External Reporting Department compiled the reports requested by Kuwait Finance House for consolidation work swiftly and in detail.

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). New pages for all users were designed and added to the platform in the MIS within the year. The screen efficiency was enhanced through additional development work aimed at making the reporting processes and screens more user-friendly.

The Unit has started working 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 preparing the reports submitted for the review of Kuwait Finance House, the main partner of the Bank to fulfill the functions of Investor Relations.

In 2017, the External Reporting Department of Kuveyt Türk has completely and rapidly met the report needs of corporations, institutions, and individuals that it cooperates with at home and abroad. Additionally, the report requests of 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.

SYSTEMATIC AND SWIFT

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 Internal Reporting, External Reporting, and Investor Relations.

Domestic Reporting Unit: The unit conducts its activities in 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 Department: The Unit's activities can be summarized in 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 the concerned 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.

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.

Operating in line with the Corporate Governance Principles, the Investor Relations Unit functions as a bridge between shareholders and senior management.

Investor Relations Unit:

The Investor Relations Unit carries on operations about the use of share ownership rights, and establishes communication between the senior management of the Bank and the shareholders. The Investor Relations Unit plays a significant role primarily in the right to demand information and right to investigate, as well as facilitation of the protection and the use of share ownership rights.

The Unit ensures that shareholder records are kept whole, safe and up-to-date. It operates within the information 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 a confidential and/or trade confidential.

Additionally, it 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 regulation; the voting results are recorded, and the final reports are sent to the shareholders are among the duties of the Investor Relations Unit.

RISK, CONTROL AND COMPLIANCE GROUP

A DISCIPLINED AND SYSTEMATIC AUDIT STRUCTURE

As in previous years, the non-performing loan ratio of Kuveyt Türk was below the industry average in 2017.

The Internal Audit Department performed its activities in 2017 in line with the requirements of its business plan and stakeholder expectations.

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 has been 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 has performed its 2017 operations pursuant to the necessities 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 presented 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.

Internal Control Department

The Internal Control Department performs the internal control function of the Bank. The Department was found 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 domestic and foreign legislation.

The Internal Control Department activities are structured in three different segments in line with the Bank's strategic targets and policies, and according to both domestic and foreign legislation, and international standards:

- Branches and Regions Internal Control Unit,
- Head Office and Subsidiaries Internal Control Unit, and
- Information Office Systems and Independent Auditing Coordination Service

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

As part of 2017 control plan and program, the various business segments, units, branches, subsidiaries, processes, products and services of the Bank were monitored and examined by demonstrating a proactive and dynamic attitude with materiality criterion and a risk-oriented approach, and results of this work were reported.

Branches and Regions Internal Control Unit: The control programs of branches in 2017 were executed in two periods and by selecting a different and risky area for each period. Work in this context was conducted via the Internal Control personnel (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 and Subsidiaries Internal Control Unit: 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 atmosphere of internal control and internal control systems within 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 work in this regard was performed by six different control services set up within the Department.

Information Systems and Independent Auditing Coordination Service: Transactions and operations in the segment of information systems that are set up within the Department and compatible with the goals of other control services were examined and assessed in terms of various business processes and products, new product and services, internal and external audit findings, internal control system and activities. These activities aimed to set up, develop an internal control system and standards throughout the Bank, as well as to spread a culture of risk and control.

The systems that are used by the Internal Control Department were prepared by this service, while the internal control personnel had all kinds of instant technical support.

Furthermore, the 2017 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.

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 Directorate has maintained its work in 2017 on the risks that are faced by the Bank.

Credit Risk Management and Modelling:

The credit risk management activities, credit policy preparation, as well as the monitoring of 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 increasing the efficiency of capital adequacy calculations, loan allocation and monitoring processes have progressed stage by stage.

Internal rating models for Corporate/ Commercial and SME customers were developed, 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. In the strategic

RISK, CONTROL AND COMPLIANCE GROUP

Determining, measuring, and managing the sustained risks in compliance with legal and regulatory requirements constitute the core duties of the Risk Management Department.

In 2017, the Risk Management Department maintained effective efforts to mitigate risks faced by the Bank.

project initiated to develop new Basel-compatible models in line with the changing segment structure, the appropriate rating models for segment-based portfolios were developed. Eight cyclic default probability models were developed for corporate portfolios and four cyclic default probability models for individual portfolios. In 2018, the focus will be on monitoring the performance of existing rating models, revising the models where necessary, and developing new rating models for new customers.

In the calculations of the capital adequacy ratio, the studies on calibration and modeling processes required for using the outputs of the internal rating in the profit-loss calculations to implement credit risk calculations under internal rating were completed in 2017.

An IFRS-9 impact study was conducted in the last quarter of 2015. Work toward Financial Control, Accounting, Risk Monitoring Units, as well as the IFRS-9 oriented work are conducted in coordination with each other. In 2017, further modeling studies were conducted focusing on the three main components of expected credit loss calculation (PD, LGD and EAD). In 2018, modeling studies will be continued with an emphasis on LGD and EAD modeling.

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. The Early Warning System which is set to be established in coordination with the Risk Monitoring Unit is due for completion in 2018.

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.

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 amount subject to credit risk, which is required by BRSA, is being prepared on a quarterly 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.

The Integrated Risk Management Project is ongoing. Upon the completion of the project, the Bank will issue BRSA Risk Management reports automatically.

Market Risk: The market risk is handled periodically at the Audit Committee and the Internal Systems Committee of Kuveyt Türk, and monthly reports are sent to the BRSA. 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 2016. Periodic stress testing and scenario analysis are conducted and presented at the Audit Committee and Internal Systems Committee meetings. Also, the stress testing on market, counterparty credit risks and the Bank's total liquidity risk are monthly and concurrently conducted.

The sukuk and other investment portfolios are regularly monitored, and reported to the Audit Committee, and every month to our main partner Kuwait Finance House. 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 quarterly reported to our main partner Kuwait Finance House.

In 2017, 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. The work is expected to be completed by 2018.

Operational Risk: As part of operational risk studies, work has been carried out in coordination with the Internal Control Department in order to determine and eliminate risks related to operational processes by taking part in the ongoing process update and improvement efforts across the Bank in 2016. In 2017, Risk Control Self-Assessment studies were conducted with business units in coordination with the Risk Management Department and Internal Audit Department. These studies are expected to continue in the coming years.

In 2017, 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. In addition, 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, the Risk Management Department undertakes important roles in risk monitoring and risk activity follow-up.

BUSINESS CONTINUITY

A business continuity test was successfully performed for the Emergency Center (ODM) in October 2017.

Keeping the business continuity plans up-to-date is among the responsibilities of the Risk Management Department. Works regarding the identification of critical processes and critical IT systems, and assurance of redundancy of these systems was conducted in 2017. The business continuity methodology was harmonized with the methodology applied by the Bank's parent company Kuwait Finance House. Further work will be undertaken in 2018 to improve the Bank's maturity level in business continuity.

A business continuity test was successfully performed for the Emergency Center (ODM) in October 2017.

Compliance Department

Compliance Department is a department in the internal systems area 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 Function

- 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 under compliance program and annual compliance control plan,

RISK, CONTROL AND COMPLIANCE GROUP

Infrastructure changes for the combined reports were completed. The newly created user-friendly system started being used for both risk follow-up and marketing purposes, and was brought online in the second half of 2017.

As well as ensuring stability for asset quality, the Law and Risk Follow-up Group made significant contributions to the digitization drive of the Bank in 2017.

- Monitoring and controlling compliance of the subsidiaries and foreign branches to the relevant regulations, and their periodic reporting to the Department.

AML/CFT Function

- Ensuring that the Bank's activities comply with the anti-money laundering and combating the proceeds of crime regulation,
- Keeping the high level quality of the Bank's customer portfolio by implementing effective risk management, monitoring and control activities,
- Detecting suspicious transactions and notifying the public authorities,
- Consulting Head Office departments and branches on subjects related to AML/CFT regulations,
- Reviewing and consulting on designing products to be offered to customers to ensure compliance with AML/CFT regulations,
- Increasing consciousness and awareness of the staff on AML/CFT regulations.

Law and Risk Follow-up Group

The non-performing loan ratio of Kuveyt Türk was below the sector average in 2017, as it was in previous years.

In 2017, the non-performing loan ratio of Deposit and Participation Banking were respectively 2.95% and 3.22%; Kuveyt Türk's overall non-performing loan ratio was 2.17%, a figure below the sector average.

This success was achieved thanks to:

- Active monitoring of clients through early warning signals,
- Taking proactive approaches towards customers in administrative monitoring,
- Displaying proactive approaches by correctly interpreting the macroeconomic indicators,
- Making the branches and personnel more conscious about risk monitoring through trainings and visits.

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 2017.

Initiated to make the administrative monitoring processes more efficient and productive, and to take the right action for the right customer at the right time for overdue receivables, the first phase of the Collection Decision Support System Project was brought online in April 2017. The system ensured increased efficiency for time and resource utilization by tracking clients under administrative monitoring based on "baskets" for the number of overdue days and their locations on BOA, and thus reducing manual activities.

The Collection Scoring Project which constituted the second phase was launched as a strategic project at the beginning of 2017, and was brought online in August 2017, after almost six months of work. The system assigns

SOLID ASSET QUALITY

At 2.17%, Kuveyt Türk's non-performing loan ratio is below the industry average.

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.

The Bad Debt Recovery Service, established under the Law and Risk Follow-up Group in 2016, continued to operate more effectively. The amount of bad debts recovered rose from TL 13.7 million in 2016 to TL 20.1 million as of December 31, 2017.

Monitoring work for the collection of write-off risks is directly conducted the Debt Recovery Service regardless of customer segment. As part of this effort, several visits were made to customers, branches and lawyers. A project was initiated in cooperation with the Analytical Banking and IT teams to develop a "Write-off Collection Scorecard" to bolster collection efforts. The project, which will involve screen development work

on BOA for write-off protocols, is due for completion in first quarter 2018. Consequently, bad debt will be ordered based on the probability of recovery from the most to least likely, boosting the overall rate of recovery.

The Law and Risk Follow-up Group is one of the key actors in the IFRS 9 project sponsored by KFH. The project will involve drawing Group and Local (Turkey) collateral policies, making sure loan classifications and collateral calculations are made accordingly. 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. In particular, the Law and Risk Follow-up Group conducted work on compiling data for the classification of loan receivables and for LGD and EAD calculations as well as ensuring data quality. With the completion of the project, significant indicators of the 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.

The infrastructure changes for the combined reports were completed, and the newly created user-friendly system started being used for both risk follow-up and marketing purposes. It was brought online in the second half of 2017, and employed for Branch Marketing, Regional, Credits, Risk Follow-up and Marketing Directorates.

A decision was taken to develop a model in 2018 under the rule-based and expert opinion assisted Early Warning System, which will involve a statistical model based on company finances and macroeconomic data, deliver forward-looking forecasts, be applicable for loan disbursement and release of collateral processes, and detect signs of financial stress objectively even before the company goes into arrears. The model is due to go live in the second half of the year. Furthermore, the data generated by this system will be used as the "EWI-Early Warning Indicators" to identify the customer group in accordance with IFRS 9.

RISK, CONTROL AND COMPLIANCE GROUP

In order to uphold and protect customer rights even in the absence of a customer complaint, Kuveyt Türk took an unprecedented step worldwide and established the Customer Rights and Regulatory Compliance Department under the Law and Risk Follow-up Group.

Under the coordination of the Law and Risk Follow-up Department, lawyers acting as the Bank's solution partners began to utilize the Lawyer Tracking System-ATS, which is fully integrated with the Bank's system and UYAP, in 2017.

In case the customer checks submitted as collateral meet the specified criteria, the system can process these directly as acceptance. But 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 and 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 model is due to be implemented in the first half of 2018. Thus, it will improve collateral quality while offering a significant edge regarding staff costs.

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

A minimum training program on Risk Monitoring and Risk Tracking processes and applications was drawn for all Regional Directorates in 2018. Training modules on Risk Monitoring and Risk Tracking will have more prominence in the credit training pack of the Training and Development Department.

Under the supervision of the Law and Risk Follow-up Department, the Lawyer Tracking System (ATS), which is fully integrated with the Bank system and National Judiciary Informatics System (UYAP), was launched for the utilization of contracted lawyers acting as the Bank's solution partners. Through ATS, lawyers are assigned files via the Bank system; they can access the file content over the system, request advances and expenses, and perform follow-up transactions swiftly. ATS also allows for the current status of customers under legal monitoring to be tracked and the performances of lawyers to be monitored. Visits to contracted active law firms continued in 2017, and talks were held during these visits to increase the collection rate through legal follow-up efforts.

Sales of fixed assets held under the Asset Valuation Service generated TL 18.5 million in profits as of December 31, 2017. The rate of sale prices to appraised value was 102%, while the rate of fixed assets to total assets was 0.13% and fixed assets to credits was 0.19%. Converting fixed assets into current assets (cash) as quickly as possible is among the key objectives of the Asset Valuation Service. The service achieved this goal once again in 2017.

The Collateral Monitoring Department enabled the online submission of mortgage release letters to the Land Registry Directorates, making a significant contribution to the Bank's digitization drive. The application aiming to boost transaction security, employee productivity and particularly customer satisfaction, while significantly reducing costs was implemented in 2017.

Over the course of 2017, the Department reviewed 165,000 collateral records, made 24,000 updates and processed 56,000 release transactions. Significant progress was made to surpass industry standards in terms of service time and quality, with the average processing time reduced to 15 minutes. Systematic improvements were made to enhance transaction security in collateral processes.

The Real Estate Appraisal Service under the Collateral Monitoring Department commissioned 32,500 reports from appraisal companies with CMB and BRSA licenses in 2017 and ensured their control. The average duration for the compilation of expertise reports was 1.85 days for residential real estate and two days for all other types of real estate.

In a groundbreaking innovation for the global banking sector, the Customer Rights and Regulatory Compliance Department became operational under the Bank's Law and Risk Follow-up Group in order to monitor and protect customers' rights even before customers file a complaint. The world's first "Consumer Rights and Legislation Department." was established. This department will take all kinds of 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 these laws.

Non-performing Loan Ratio (%)



Provision Ratio (%)



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 the necessary actions to prevent any non-compliant transactions within the Bank, and works in coordination with the other units in order to put these actions into practice.

All the contracts and forms signed between the Bank and its customers in 2017 were gathered under a single umbrella, and made easily accessible to the branches. Through the addition of QR codes to the contracts and forms, the contract signing process has been shortened, saving time and increasing customer satisfaction.

Furthermore, in order to provide legally binding documentation to the expanding base of foreign customers and to present documents in their language, most of the contracts, forms and instructions were translated into English and Arabic.

The Customer Rights and Regulatory Compliance Department, which has assumed the sponsorship of the project carried out under the "Law on the Protection of Personal Data", intends thereby to make the Bank's processes and practices compatible with the said law.

BANKING SERVICE GROUP

MANAGING BUSINESS PROCESSES EFFICIENTLY

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 manages a total of 660 ATMs comprising 557 branch ATMs, 103 out-of-branch ATMs as well as 36 XTM devices.

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

Expending efforts for bringing operations to the highest quality standards and minimizing operational costs, the Center includes the Credit Operations, Banking Operations, Foreign Trade and Treasury Operations, Insurance, Payment Systems and Call Center Departments.

The management of business processes for enhancing work efficiency at Kuveyt Türk, and the execution of the necessary technological update activities are also among the responsibilities of the Center.

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

Payment Systems Department
ADC Operations, Card Operations, Expense Disputes and Security operate under this Department.

ADC Operations: It conducts POS, ATM/XTM, utility bill, and tax collection operations.

POS Operations: In 2017, customer satisfaction was achieved through service levels (SLA) of 97.30% in POS installation and of 97.45% in troubleshooting. In 2017, the number of POS devices increased 28.86%, while the number of transactions went up 31.57% and transaction volume rose 27.99%.

The key improvements regarding POS operations in 2017 were as follows:

- Call notification automation was launched with cash register POS manufacturer Ingenico.
- The availability of POS and cash register software for contactless purchases on the field was expanded.
- A POS Branch Transfer screen was generated and launched for branches on BOA, increasing productivity.
- By developing a POS Authorization Screen, branches were provided with a screen where they could assign "mail order" and "foreign card" authorization, increasing productivity.
- The customer screens of Virtual POS (FreePOS and Collection System) Collection System were further developed to respond to user needs.
- The Virtual POS product was integrated into the Ministry of Finance official web site to enable payments to be made with Kuveyt Türk cards.

INCREASE IN POS DEVICES

In 2017, the number of POS devices increased 28.86%, while the number of transactions went up 31.57% and transaction volume rose 27.99%.

- Specification and integration work was conducted for 3,114 POS terminals at 1,039 tax offices.
- In order to enhance the security level of transactions going through the virtual POS product, all virtual POS businesses were required to operate on 3D secure and relevant work to this end was completed.

ATM/XTM Operations: It manages a total of 660 ATMs of 557 branch ATMs and 103 out-of-branch ATMs as well as 36 XTM devices.

In 2017, there was an increase of 15% in the number of ATMs, and a 20% rise in the number of financial transactions. In 2017, Recycle ATM started to render services in 52% of the entire field. The ATM service delivery rate is 97%. ATMs are monitored 16/7 under Payment Systems.

Under the branch ATM project, 131 ATMs were installed and some of the counter workload was shifted to the ATM channel. ATM preview (malfunction monitoring application) was enhanced with the addition of the Incident Manager (malfunction process automation). The first phase work and the accounting and reconciliation automations of off-site ATMs were completed.

Bill and Tax Collections: The Department manages 13 product operations including Utility Bill Collection, Tax Collection, SGK, HGS, Donation, Ministry of Religion Payments, Customs Collections, TL Top-up, PTT Banking, Health Payments, Retirement Pension and title collection. In 2017, a total transaction amount of 19,601,113 was achieved in all products. In 2017, our ADC rate in utility bill collections rose up by 74.12%.

The projects undertaken in 2017 under the ADC operations were as follows:

- The workloads of central branches were alleviated through the automation of wire and EFT transfers,
- Tax payments were built in the virtual POS and ATM channels.

- As part of SGK premium payment centralization efforts, it became possible to place automatic SGK and BAĞ-KUR payment orders.

Card Bartering Operations: The Card Bartering Operations Unit manages operational transactions for debit and credit cards, as well as parameter definitions in the management of smart systems. It manages daily settlement and accounting transactions for BKM-VISA and MasterCard companies, and provides reports for government agencies concerning card payment systems. In 2017, the credit card numbers rose by 36%.

- The following projects were conducted under the Card Bartering Operations in 2017:
- KOBİ card- Sağlam Bayi card products were printed, authorized, and underwent accounting tests, making them ready for release.
- Authorization, settlement and accounting tests for domestic card-to-card transfers were conducted and the project was implemented.
- Staff participated in tests for Not-on-us Deposits and Credit Card Payment Transactions (Cross Transactions) projects. Accounting service codes and slips were defined ahead of the transition to PROD applications.
- The functionality of the Branch web screens used by branches and the Call Center for credit card transactions were enhanced and improvements were made to perform the "Early Repayment of Installment" and "Credit Card Overcharge Refund" transactions, fulfilling customer requests.
- The system was developed to generate debit card printing data automatically.
- Improvements were made to make sure cards with various chip brands can be printed at the branch.
- The quality of the data submitted to the BKM data warehouse was improved.

Support was provided for the debit card project of KT Bank AG.

Product and Customer Security:

Actions are taken to prevent fraud in the card, merchant member, ATM and digital banking channels. The rate of forgery in 2017 was 3.19 in the sector, versus only 1.69 at Kuveyt Türk.

The key initiatives undertaken in 2017 were as follows:

- The BOA Debit Fraud Project was completed in line with the project to move the Debit Card Provision System to BOA.
- In addition to the channels currently monitored for potential fraud (Payment systems and Digital Banking), other fraud cases that could target SWIFT, MoneyGram, Phone Banking and Fake Application channels began to be monitored.
- On the Debit Banking Security Monitoring side, a project was completed to call customers for transaction confirmation via the Interactive Voice Response System (IVR).

Credit Operations Department

The Credit Operations Department conducts individual, SME and corporate finance projects, financial leasing operations, and incentive transactions in line with Kuveyt Türk's work principles and legal legislation. In 2017:

- A Credit Operations Information Service was established and activated to respond to branch enquiries and information requests about fund allocations.
- Efforts were made with IT to fulfill the systemic requirements under the Fund Allocation Centralization Project.
- Work commenced for a new fund allocation project which will systematize the entry and tracking of data for fund allocation processes as they get digitized.
- As part of the SÖİK reached with Eximbank, a protocol was signed to operate in euro and TL and the work on infrastructure began.
- An active role was played in the Bank's strategy of expanding leasing operations.

BANKING SERVICE GROUP

Kuveyt Türk Call Center was designated the Best Service Provider Call Center, as in previous years, in terms of service quality.

- As part of Leasing System Improvements, lessee modifications were logged into the system. The Association of Financial Institutions (FKB) payments were automated, and leasing HS codes (GTIP) were fed into the system to submit information on relevant VAT rates.
- Process and system studies have been made for KGF transactions.
- A large number of branch and customer visits were made, and information was provided on the Bank's principles and practices.

The Credit Operations Group achieved its 2017 targets, and accomplished the following results over the year:

- The Credit Operations Advice and Enquiry service contributed to the delivery of correct and swift transactions by meeting the information requests from the branches.
- Thanks to successful initiatives regarding the Ministry of Economy's profit share-based transactions and urban transformation schemes, many customers became eligible for government support, and thus customer satisfaction and loyalty were enhanced.
- A 50% increase was recorded in financial leasing.

Banking Operations Department Insurance Transactions Unit: It provides the following services in insurance policies associated with loans extended by Kuveyt Türk, or insurance policies outside the scope of Bank loans:

- Policy Issuance,
- Addendum Operations (Change-Cancelation)
- Pursuance of Claims.

In 2017, the Unit performed 85,011 warranty and external insurance policy entries and approvals, 211,397 insurance policy renewals, 31,800 change, cancelations, 16,971 claim transactions and warranty inquiry/control transactions.

In its insurance operations and contracts, the Bank cooperates with the only insurance company, Neova, in this field in Turkey that carefully complies with interest-free insurance principles known as *tekâfûl*. The Bank's collaboration with Neova Insurance, dating back to 2010, was further enhanced in 2017.

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 2017, insurance premiums generated by Neova Insurance via Kuveyt Türk reached approximately TL 125 million.

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

by Katılım Emeklilik through Kuveyt Türk reached TL 35 million in 2017. Furthermore, the size of Private Pension Fund Katılım Emeklilik built through Kuveyt Türk rose to TL 550 million.

In 2017, the insurance premium generated by Neova Insurance reached approximately TL 125 million in the non-life branch, and approximately TL 35 million in the life branch. As such, there was a 44% increase in premiums in the non-life branch and a 94% increase in the life insurance branch.

In 2017, as a result of Kuveyt Türk's analysis of customers' insurance needs:

- The SME Private Life product issued by Katılım Emeklilik was launched for sale.
- Education Guarantee Insurance, Critical Illness, and Personal Accident products continue to be marketed.
- Unemployment Insurance was included under the coverage of the existing Credit Life Insurance product.
- The scope of Shopkeeper Package Policy (Esnafim) issued by Neova Insurance was expanded and its sales continued under Solid Workplace Insurance (Sağlam İşyeri) brand.
- As part of promotion activities for Kuveyt Türk's agricultural insurance range (TARSİM), there was a renewed focus on staff training to better serve the insurance customer portfolio of the agriculture and livestock industry.

- Regarding the CRM Portfolio 360 Project, the goals of the system upgrade initiative, which was launched to establish target / performance cross sales pools for insurance products, were achieved.
- Information meetings were held among branch marketing personnel as regards the insurance products which have a large premium generation potential.
- As a result of the licensing studies conducted to increase the technical competence of the branch personnel, the number of Bank personnel with SEGEM certificate was brought up to 2,076.
- Screens were upgraded to ensure services for all the insurance products are delivered in a simpler and faster manner.
- Under the CRM Portfolio 360 Project, there are plans for system upgrade work to establish target/ performance cross sales pools for Life and PPS insurance products.
- The technical competence of all branch personnel will be enhanced; our programs for SEGEM certificates will continue.

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.

Installed in order to reduce the workload at branches, the lobby ATMs that were so far installed at 103 branches helped to reduce the counter workload from 39% to 20% in 2016 and to 15% in 2017. As part of the project, 62% of the workload was shifted from the counter to the ATMs. As a continuation of the project, the range of transactions that can be conducted at ATMs located inside and in front of branches were expanded. The development work will continue in 2018.

By ensuring more efficient use of ATMs in 2017 in line with ATM routing objectives, the ratio of ATM transactions in total counter and ATM transactions rose from 75% to 82%.

Under the New Branch Business Model Project drawn in line with the vision of the Bank, in addition to Istanbul Anatolian 2nd Region, Istanbul Anatolian 1st Region was also included in the pilot scheme. The new Branch Business Model is expected to be rolled out to all branches in 2018. With a customer-oriented operations

approach, the implementation of the new Retail/Counter concept at pilot branches has begun.

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

Banknote counters with remote access, update and counterfeit money identification technologies began to be dispatched to branches.

Daily, monthly and yearly reconciliations made at branches were systematized to reduce the operational workload and prevent non-agreement.

A procedure was organized to help branch operations staff transition to the Sales Department, and 77 operations staff that were successful in the assessments for 2017 were transferred to sales positions.

In 2017, 213,045 units were sold in line with ADC sales targets assigned to the operational staff.

With a support team of 55 people to fulfill the temporary staffing needs of the branches, more than 6,300 branch staff requests were met in 2017, ensuring continuity of services at the branches.

As of year's end, 128 branches are operating with one operations manager and one counter staff. Through this arrangement, newly established branches which did not achieve sufficient transaction volumes are able to operate at the most expedient staff costs.

OPC Business Development Service:

The OPC Business Development Service works to ensure that the processes of Operations Center units 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.

The goals of Insurance Transactions Unit for 2018 are as follows:

- New products are planned to allow the Call Center to market new insurance products to loan customers. Efforts are underway at Katılım Emeklilik to issue personal health and travel health insurance products, with the launch due in first quarter 2018.
- As a result of Kuveyt Türk's efforts to analyze customers' insurance needs, work is underway to add an energy systems policy to Neova Insurance products for insuring power plants, and this new product is due to be issued in 2018.
- As a result of Kuveyt Türk's efforts to analyze customers' insurance needs, work is underway to issue a new life insurance product aimed at commercial customers, and this new product is due to be launched in 2018.
- Marketing efforts are ongoing for Unemployment Insurance with Loan, and Life Insurance for Needs Card and for other credit card products.
- Upgrades will continue to integrate products and services to digital channels, and to ensure that customers can access insurance products and services at any time.

BANKING SERVICE GROUP

Kuveyt Türk received the “Best R&D Center” award in the “Banking and Finance” category at the sixth edition of the R&D and Design Centers Summit organized by the Ministry of Science, Industry and Technology in 2017.

Reviewing the OPC processes to conduct the necessary work-efficiency analyses, determining and prioritizing the improvements and upgrades, devising projects to increase efficiency, and implementing them are among its main priorities. Furthermore, it conducts analysis and reporting on developing trends and information technology solutions. Data processing, generating projections with an analytical infrastructure, and establishing a systemic reporting infrastructure are the key areas for ongoing work.

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.

Personal Accounts: In 2017, 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 last year rose from 73% to 78.05%. The number of customers increased from 1.5 million to 1.7 million. The weighted ratio of completion is determined via e-mail.

Corporate Accounts: Data verification work was conducted for the type of business, date of establishment and authorized areas through infrastructure studies. Completion rate reports were sent to the branch portfolios every week and branches twice a month for follow-up work.

Data Cleansing: Some 800,000 e-mail data, 400,000 customer

accounts, 52,000 entries for occupation information and accounts for under 18s were included in data cleansing. Accounts held by 6,905 associations and foundations were examined and data correction work achieved 25% improvement.

Data Verification: New data verification rules were introduced for education, occupation and customer age. Verification for vehicle and home data is supplied from the credit bureau KKB. Verification from the Mersis system was introduced for corporate accounts. Document checks were introduced for documents required at account openings. The rate of false documents in new accounts was reduced to around 1%.

Cash Operations Unit: The Cash Operations Unit meets the group needs of Kuveyt Türk branches. It serves 144 branches in Istanbul and 224 branches outside Istanbul. In addition to meeting the cash transfer and receipt requests of the branches, it also makes transfers of KT gold grams, Turkish Republic gold coins and gold and silver bullion. Furthermore, foreign currency to be transferred abroad by the Treasury Department is prepared and delivered to the designated shipping company.

- As a result of the Treasury Department's foreign exchange transactions with foreign banks and companies in 2017, a Group was prepared for the export of USD 1.5 billion, EUR 567 million euros, SAR 1.19 billion, and JPY 232

million in banknotes. A Group was prepared for the export of USD 1.5 billion, EUR 567 million, SAR 1.19 billion, and JPY 232 million in banknotes.

- In 2017, the Group transaction volume between the Anatolian and Istanbul branches, and the main vault amounted to TL 13.5 billion, USD 3.8 billion and EUR 1.3 billion.
- In 2017, the Anatolian branches' TL Group transactions are met from CBRT counters, contributing to the cash balance target project of Assets and Liabilities Department.
- TL 6.2 billion was invested by the Anatolian and Istanbul branches to CBRT and put to the use of the Treasury Department on the same day.
- The main vault located in Istanbul executed the counting of 94 million banknotes in group transactions for Istanbul branches.
- In 2017, the gold sent to and received from the branches in group amounted to 9.7 tons.

Banking Operations Department Call Center Directorate: Two main units operate in the Head Office: Call Center Operations and XTM Center.

Call Center Operations Service: Kocaeli Kuveyt Türk Call Center operates in four different locations as Kocaeli Banking & Life Base, Ankara Balgat DRC and Call Academy, Konya Call Academy and Izmir Call Academy. It also serves its customers in Arabic and English, besides Turkish.

Among the operations carried out in the Head Office 24/7 are telephone

banking, support services, credit card and insurance policy renewal and sales services, customer satisfaction line, Senin Bankan, private banking and answering branch calls are included. In addition to these services in 2017, Kuveyt Türk began to provide support for translation services in Arabic and English for responding to customers' e-mail enquiries and when branches required it for communicating with foreign customers.

Incoming Calls: Some 33.2% of the incoming calls to the Call Center were answered by customer representatives and 2,706,238 customers were served in 2017. Some 64.3% of the incoming calls were resolved in the self-service channels and 4,845,065 customers were served on the IVR channel. The number of banking transactions performed over the Call Center increased 9.4% over the prior year to reach 94,801. The annual value of banking transactions came in at TL 338 million. As part of sales activities, TL 5,146,913 in revenue was obtained from Neova Insurance policy renewal and sales. Customers who failed to reach the Kuveyt Türk Call Center were automatically called back by the Call Center.

The IVR self-service channel continued to expand in 2017. A total of 4,845,065 customers were served via the IVR channel. As a result of the IVR self-service channel, there was a 7% increase in workforce management and call response performance, as well as a productivity increase of an average of 148 person/days. Some 64.3% of all calls to the Call Center were answered via IVR.

Some 78.7% of the calls received from the Call Center were answered within the first 20 seconds, and this duration was 24 seconds for all calls in general. According to the results of research conducted by ADS Consulting Group the call centers of the four leading banks in Turkey, Kuveyt Türk Call Center was designated the Best Service Provider Call Center as in the previous years, in terms of service quality. A score of 89 points was received in the Customer

Experience survey conducted by ADS Consulting Group in order to measure and evaluate the quality of service.

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 Unit: Via 36 XTM digital branches placed in different locations, the XTM Center provides video chat services in Turkish, Arabic and English to customers as regards all banking transactions.

- In 2017, the number of incoming video calls to the XTM center increased by 3.5% to reach 121,202. Some 62.53% of the incoming calls were answered within the first 10 seconds.
- The XTM Center's number of annual transactions increased 11.9% in 2017 and reached 304,687, while transaction volume increased 30.1%. New customer accounts were opened through the XTM Center in 2017, increased by 24% over the prior year.
- In 2017, besides operational transactions, XTM Center's sales activities and credit card sales up 62% and bill instructions increased 20%.

Treasury and Foreign Trade Operations

Among the responsibilities of the Unit are banking transactions related to import, export and external guarantee transactions, controlling and supervising incoming and outgoing foreign currency transfers of Bank customers, EFT and SWIFT systems, and performing foreign exchange, precious metals and Central Bank transactions.

Comprising 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 of the Treasury Operations Unit consisting of Transfers, Collections, Letters of Credit and External Guarantee Units increased 18% in 2017 in comparison with the previous year.

With the completion of the centralization studies, digitalization studies were the focus. Digitization efforts will continue at a growing pace. As part of Foreign Trade consultancy services, launching direct contact with customers helped ease the branch workload.

Treasury Operations Unit: The Unit has three sub-divisions, namely, Foreign Exchange and Money Market Transaction Operations, TL and Securities Transaction Operations, and Precious Metal Transaction Operations. At the same time, the Unit includes the EFT Center and thus conducts control, reconciliation and development activities for the EFT, RPS (PÖS: Retail Payment Service) and EST (EMKT: Electronic Securities Transfer) systems.

The number of operations at the Treasury Operations Unit in 2017 increased 30.3 % year-on-year.

In 2017, sukuk issues, acceptance of sukuk as collateral, opening/closing qualified accounts, late liquidity window and daily limit (GLP/GIL) transactions with the CBRT and second hand sukuk issues started to be conducted by the Treasury Operations Unit.

In 2018, trading, acceptance and reconciliation transactions for electronic product certificate (ELÜS), acceptance of mutual funds as collateral, Central Registry Agency (MKK) foreclosures, gold EFT system, upgrades to the CBRT faster payments system and the messaging structure of CBRT Participant Interface System (KAS), upgrades to EFT/RPT system and other banks' murabaha transactions will be conducted by the Treasury Operations Unit.

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In collaboration with Neova Insurance and Katılım Emeklilik, Kuveyt Türk provides customers a rich warranty structure and alternative product packages for their insurance needs.

Analytical Banking Department

- The projects developed by the Analytical Banking Department in 2017 were as follows:
- Call Center traffic estimation: By making estimates on future calls to the Call Center and calculating staff numbers to be deployed on a part-time basis, the staff surplus was reduced.
- Call Center – Agent Segmentation: There were some findings on how to determine agents' areas of strength and weakness, and providing the relevant staff training accordingly.
- Senin Bankan Fraud: A scheme was developed to detect fraudulent applications submitted via the Internet Branch Senin Bankan and the number of applications requiring manual checks was reduced.
- Insurance Upsell Cross Sell: Customers were recommended suitable insurance products.
- Check Intelligence System: Calculations were made on the reliability of checks entered into the system and 85% of manual tasks were automated.
- Value Segmentation Revisions: Several revisions were made in the value segments.
- Customer Specific Rate Assignment: By assigning specific interest rates to customers, demands for custom rates from customers or branch staff were prevented.
- Collection Management Project/ Two Phase: Estimates were made on whether the customer would eventually make overdue payments on loans before the customer entered the legal process.

As data-driven systems gain increasing prominence, various units within the Bank consulted the expertise of the Analytical Banking Department in order to harness data for prospective decisions and upcoming projects. Several business units received advice on analytics and machine learning in the following areas:

- Collection management
- Cash balance management
- KKB G5 score
- Consultancy on statistical analysis for Process Development Department
- POS analytics & reporting work
- EFT Conversion Project
- OCR technologies, automated data entry

As part of the R&D work, in order to process and interpret an ever expanding pool of data growing as a result of technological developments in a more practical and cost-effective way, infrastructure work was carried out to adopt the kind of open-source big data tools and architecture that technology giants also steadily invest in, relevant problem domains were identified, bids from potential suppliers were received and assessed for the installation of the said infrastructure. The software and hardware were purchased, installed and went fully operational in 2017.

Process Improvement Department:

The Process Improvement Department operates with the Process Improvement and Product Support Services Units.

Process Improvement Unit: The Bank is carrying out work for development and keeping up to date of its processes in a customer focused, efficient, making the most of the technology, participative, measurable manner, in line with law and banking principles, subject to the principles of having defined standards and having the necessary analyses and investigations made.

In order to ensure this, four different types of process works are being carried out. These are:

- Designing process for new products and services,
- Making re-designs related to existing processes,
- Working to improve and develop the existing processes and
- Finally, modeling the existing processes of bank applications.

The Process Development Service specified the definitions and rules for fund allocation processes in the domestic market funds project in 2017, and designed the task algorithms of definitions and rules to ensure the workflow is managed by the system.

The rules and scopes for the Domestic Market Fund Allocation Project were specified to allow for end-to-end management by the customer.

As part of the branch business model development, pilot studies were monitored for the new SME model, issues were discussed and resolved. Projects were initiated to reduce

branch workloads and to minimize risks (e.g. Audit Project, ADC Projects). Work was also ongoing for the Retail-Counter model.

The Process Project with the Customer Satisfaction Team was completed. The results of the project will be monitored in 2018.

Other efforts carried out in 2017 are as follows:

- Branch audit processes
- Enhancement work on Senin Bankan and XTM processes
- Credit Guarantee Fund (KGF)
- Online real estate release
- Official correspondence
- Acceptance of sukuk as collateral
- Acceptance of receivables as collateral
- Supply Chain Finance
- GoldEFT
- mPOS
- Face recognition
- Card stock management
- Electronic letter of guarantee
- Dealer transactions
- Acceptance of bills as collateral

Product Support Unit: With its highly competent and well-experienced team, the unit provides information and support to employees about all screens, products and services.

In addition, the Unit also informs the relevant Head Office units about any process- and screen-related problems, and assists them in finding solutions. As such, the Unit makes efforts so that users can find permanent solutions and thus avoid running into the same problems.

In 2017, the Product Support Unit made 35,860 phone calls to help users, and responded to 13,454 help desk requests.

Administrative Services

The Administrative Services Group comprises the Administrative Services and Procurement Department (Procurement, Administrative Affairs and Communication Units), Construction and Project Department and the Security Department.

Administrative Services and Procurement Department:

Composed of the Procurement-Lease-Logistics, Administrative Affairs and Communication-Archive-Logistic units, the Department formulates and implements the Bank's procurement and service processes.

As for procurement, the supply of goods and services needed by the Bank are obtained in a timely, low-cost manner and at the highest quality, market analysis considering the needs. The purchased goods are stored and then distributed to the requested locations via the demand management system with the help of the Logistics Center. As part of Procurement Lease and Logistics Service's activities, contracts are awarded in line with the projects drawn to ensure that the properties purchased or leased to provide a new service point in line with the Bank's strategy are ready for service.

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.

Agreements of all departments were obtained and registered by scanning into the Bank ERP infrastructure to track the Bank's agreements, and a comprehensive database was formed. The units were granted access to their contracts through the application within their authorization limits.

In order to optimize operational costs, supply processes were expanded through central agreements with different suppliers, and suppliers of maintenance and repair services were integrated to enhance the quality and bring down operating costs.

In 2017, locations for 10 new branches that were rented, three individual XTM branches and 22 ATMs, the tenders were completed, and these were put into service. In addition,

the locations of 11 branches were changed, and comprehensive renovations were carried out in six branches.

Supply planning, inventory and shipment management for about 600 different products are managed with the efficiency principle in the Logistics and Archive Center on an area of 2,500 m² and having an area of 4,500 m² in Tuzla. During purchase activities, usage of practices supporting energy and environment efficiency was a priority.

The Department serves to provide Bank's mailing-cargo-carrier documents reception-registry-distribution processes, all commission-committee secretariat, official correspondences and notifications, private secretary services, fixed and mobile line operator services of Communication and Archive Service activities.

Some 22,917 individual subscriptions for our Bank's fixed and mobile phones, electricity, water and data lines are managed for uninterrupted service.

Management of 7,500 documents daily is ensured centrally by transportation means including cargo, carrier and mailing without affecting the customer satisfaction in shipping costs, and cost efficiency is provided.

The Bank's operational processes, including commission and committee decree and report consolidations/deliveries, circulars of signatory, branch opening and trade registry applications, translation and notary processes, international deliveries, are performed by our Communication and Archive Unit.

The Department provides the transportation, catering, hospitality, accommodation support service functions required for the Bank to sustain its services as part of the Administrative Affairs Unit's activities.

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Installed in order to reduce the workload at branches, the lobby ATMs that were so far installed at 103 branches helped to reduce the counter workload from 39% to 20% in 2016 and to 15% in 2017.

Services like restaurants, cafes, supermarket, sports center, hairdresser, dry cleaning and tailoring are provided to meet the employees' demands on site in the Banking & Life Base. More than 40 different activities were organized for the orientation and motivation of the employees.

All plane tickets, accommodation travel and tourism services of the entire staff are centralized to provide cost efficiency and around 10,000 trips were organized. At the same time, a guest house with 30 rooms and 60 beds, and a conference hall for 600 people with 11 training rooms were introduced in the Banking & Life Base in order to save costs in training on-site and accommodation expenses. In our Banking & Life Base Guest House, accommodation service was provided for our employees arriving for training for 11,000 nights within the year. Also, 4,000 nights of stay were provided for our employees who travel for training, business and meetings in Turkey.

Security Department: Security services are provided with private security officials having the required technical and tactical knowledge and high business discipline and keeping up with developing technology in order to maintain the security of service point in duty zones and Bank service points within the legal coverage by considering customer satisfaction.

Construction and Real Estate Department: The Construction and Real Estate Department continued

its work to create and develop new service points in line with Kuveyt Türk's vision inaugurated 10 new branches, three new retail XTM branches and 22 ATM points.

Over the course of 2017, Şanlıurfa, Adıyaman, Çağlayan, Gaziantep, Eyüp Sultan, Beşevler Sanayi, Üsküdar, Çınar, Ağrı, Çorum, Laleli, Hadımköy, Demetevler, Kütahya, Afyon Karahisar, Bakırköy, Başakşehir branches and Gaziantep Regional Directorate were renovated.

Kuveyt Türk renewed the Off-Site ATM cabin design and used this design at 22 new Off-Site ATM locations in 2017 with all architectural, electrical and mechanical infrastructure completed.

In addition to executing new branch opening and renewal projects in 2017, the Department of Construction Projects continued efforts to enable the sales marketing and business model development policies of Kuveyt Türk to be applicable in the field.

With renovations carried out in a total of 63 branch locations, the Bank installed second ATM devices at branch fronts. The Bank replaced existing ATMs with new versions.

As part of the Kuveyt Türk branch business model efforts, the Bank revised the configuration of placing operations employees in 18 branches to be in compliance with MIY position. As part of the retail sales project, a new layout was drawn and pilot study was initiated.

Pursuant to the accessible infrastructure program regulations covering of all public and private companies and agencies as issued by the Ministry of Family and Social Security, the Bank completed the infrastructure work to make all the branches offer better quality and suitable services to handicapped customers. All branches that were newly opened or renewed to feature this handicapped-accessible infrastructure. Furthermore, 14 branches had accessible ATMs installed.

To boost the skills and enhance the competence of staff as part of the Banking School project, the training areas at the Banking Base were renovated to fit the school concept better and were brought into service.

Information Technologies (IT)

Kuveyt Türk Information Technologies 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 and advanced technology infrastructure.

In line with the Bank's strategies, 245 projects and 969 modification tasks were completed over the Core Banking Platform and digital channels and brought live in 2017.

A total of 34,587 incidents and 76,434 requests raised by end-users were resolved, with call reduction efforts achieving a 30% year-on-year reduction. Some 90.97% of incoming requests were resolved within

four hours and 91% of calls were concluded at the Service Desk. Owing to this successful performance, the call resolution satisfaction in 2017 reached 91%.

In addition, a more proactive approach was implemented to resolve audit findings for systems. The result was that 25% of audit findings were resolved before the audit was completed and 76% of findings were resolved before the deadline. Under the quality control activities, control points were increased.

Minimum security requirements for IT infrastructure systems were specified and a compliance screening process was launched to assess compliance with these requirements. Cryptographic policies in application were updated and cryptographic measures were reviewed for enhancement opportunities.

Prioritizing digital channels in terms of quality improvement projects, two Bugathon competitions were organized in April and October, and their results were forwarded to development teams. Within the scope of this project, award categories were designated in the fields the Bank seeks to improve and encourage, and the Application and Service Quality Awards which enhance processes and outputs as well as boosting employee motivation were granted for the fifth time.

Necessary action was taken to ensure that the key business tasks 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, and as a result of discussions between IT System Monitoring service and other IT departments, the monitoring coverage for critical business systems was increased to 94%.

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 sixth edition of R&D and Design Centers Summit organized by the

Ministry of Science, Industry and Technology in 2017. As the recipient of the award for a fourth consecutive year, Kuveyt Türk boasts a hard-to-beat record in the field.

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 Istanbul Technical University, Sakarya University and Işık University.

The "Undergraduate Final Assignment Projects" scheme for senior students at computer engineering departments of Kocaeli and Sakarya University allows students to gain on-site work experience before embarking on their career in the industry. Kuveyt Türk employees have shown a keen interest in the graduate program with business experience offered in cooperation with Sakarya University, and conveyed the projects they were involved in to the academic world.

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 context, new policies and procedures to boost the number and quality of scientific publications were implemented. In 2017, 21 Kuveyt Türk employees were granted graduate training support, 4 patents and 12 publications were incentivized.

In 2017, the Lonca Entrepreneurship Center was launched offering a special program to support the start-up and the fintech ecosystem, and a wide range of facilities including mentorship and venue support.

In order to enhance the knowledge and awareness of the employees, five 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.

The outstanding projects undertaken by Information Technologies include:

Installation of IFRS-9 Reporting

System: Compliance work was undertaken for the IFRS 9/IFRS-9 reporting standard with a mandatory roll-out on January 1, 2018 as part of a joint project under the KFH Group. The software to be used for reporting was selected and the data preparation process for developing models on the classification, measurement and derecognition of financial assets and liabilities was initiated.

Internal Rating Models Development

Project: As part of the project aiming to develop models for estimating the default rates of customers for credit allocation and monitoring systems, data sets needed to generate behavioral models for corporate and retail customers were created. With the completion of the behavioral model for corporate customers, integration work into the BOA Core Banking Platform began. In the second phase of the project which involves generating application models, the data set preparation work for corporate customers is also underway.

New DRC Installation Project: The project aimed at restoring 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 rendering the banking systems unusable began in October. Substantial progress was made in infrastructure modernization and physical installation work was carried out in the new DRC system room allocated to Kuveyt Türk at the end of December. The existing DRC functions are expected to be delivered via the new DRC system by the end of March 2018. 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, 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.

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Kuveyt Türk's official website www.kuveytturk.com.tr was completely revamped in terms of both infrastructure and design in order to respond to the new trends and meet customer needs.

New Fund Allocation Project:

The analysis and design work is ongoing to develop the corporate customer fund allocation system for domestic market products with an omnichannel approach on a web-based BOA One infrastructure. Expected to deliver significant speed and efficiency for fund allocation processes, the application is set to be launched in the fourth quarter of 2018.

OLA (Operational Level Agreement) Project:

The project will determine the estimated time of completion for each type of transaction at the operation center services, and make a commitment to the branches. Estimated completion time of the process will be calculated dynamically by the system with reference to the past transaction times and the number of queued transactions in the pool, and in cases where the target time will be exceeded, common pool assignment rules will be generated and intensive day management will be applied. Therefore, transaction durations will be standardized and performance will be measured. Work on this effort is continuing on schedule.

COBIT 5 Project: Certain processes of COBIT 5 deemed beneficial for increasing process maturity levels, standardizing processes, aligning IT and business units, managing IT processes according to prevailing best practices, and minimizing IT risks are implemented.

Testomat Project: An application was submitted to the ITEA framework

program of the European Union for the project which aims to enhance the test automation processes under IT. The project was earmarked for support by referees assigned by TÜBİTAK after receiving the two-stage approval from the European Union. The Next Level of Test Automation (TESTOMAT) Project will support the software teams as they strike the right balance by increasing the speed of development without compromising on quality. When this goal is reached, the most advanced technology in test automation will be developed and improved for software teams as they move towards a more agile development process through the project. The project will ultimately result in a Test Automation Development Improvement Model that will specify key areas of improvement in test automation by focusing on measurable improvement steps.

OPM Call Center BOA Conversion:

The former structure where customer representatives managed calls through an external desktop application called CCMS (Call Center Management System) was removed and replaced with the "BOAgent" module developed exclusively on the BOA infrastructure offering improved functionality and efficiency compared to the previous application. Through the BOAgent Panel and Customer 360 integration, customer information can now be accessed in full detail via BOA. From password operations, to branch transfer screens, credit card information, and account activity, all screens were examined in detail, and redesigned

in line with needs and requests. By enhancing the user experience on the screen, the number of clicks was reduced to a minimum, and the call duration was utilized much more efficiently. Regarding customer security, the information required by the system is now accessed in the fastest manner simply by system referrals.

Account to Mobile Money Transfer (iOS, Android, Web):

Account to Mobile Transfer (Hesaptan Cebe) is a new money transfer method to facilitate sending money from accounts to GSM numbers via an iOS and Android Mobile Branch application. In this transfer method, the recipient need not be a Bank customer. However, the money can only be withdrawn from Kuveyt Türk ATMs.

Corporate Web Site Relaunch:

Kuveyt Türk's official website www.kuveytturk.com.tr was completely revamped in terms of both infrastructure and design in order to respond to the new trends and meet customer needs. The content was enriched and categories were re-organized. In addition, an intelligent search engine was integrated and access to information was facilitated. Furthermore, the web site began to support Arabic, enabling Arabic-speaking customers to easily access site data and to obtain information about services.

BOA Conversion for Corporate Performance Management (KPY) Project:

KPY is the system employed for preparing and publishing the

directorate scorecards. Under the project, the corporate performance management system was developed on BOA. Administrative screens required preparing corporate scorecards; scoring specification, strategy specification, item and scenario specification screens, an authorization screen to process scorecard authorization, and a data entry screen that allows for manually inputting the outcome and target entries were brought online. The scorecard management screen incorporated functionality to prepare scorecards, calculate and publish scores, and the corporate scorecard screen was designed to allow scorecard owners to view their own scorecards as well as other scorecards they have authorization for within the organizational hierarchy.

Campaign Bundles Management System: The system was developed to generate bundles where certain products are brought together for a limited period at a set number and sold on as a new product, as well as campaigns which provide benefits, discounts and gifts with or without customer prompt. By specifying the selected customers or target groups as a prerequisite, customers will be able to gain economic advantages by purchasing products in bundles through the new infrastructure which will be able to provide repetitive advantages periodically after the collection of the bundle price.

KT Bank AG Application Development: Development requests from KT Bank AG in Germany, a wholly owned subsidiary of Kuveyt Türk, for the BOA Core Banking and Technology Platform were fulfilled. Several banking projects requested and prioritized by KT Bank including Mobile Branch (iOS and Android), Credit Card (JetzzCard), Internet Branch Inbox Application, Vostro developments, infrastructure development were completed and delivered.

Mufi Project: Mufi, a mobile payment application aimed at everyone regardless of whether they are

customers of the Bank or not, was developed on the Android platform and made available for project stakeholders on a pilot scheme. Its iOS version is still in software development phase. The work started with a bill module due to its high transaction volume and its prevalence on digital channels. Other collection modules will be added as soon as required permissions are obtained in the following phases.

Decision Support System

Development Project: Allocations were assigned to customers through the Financial Analysis and Allocation Module and approval process was structured for three authorization levels, namely, branch, region and head office. In branch authorized transactions, the process is completed upon the approval of the branch manager, enabling faster decision-making compared with the other two types of authorization. However, the sums that can be assigned for limits through branch authority are more limited than those under regional directorate and head office authority. Furthermore, the branch type also affects the limit to be assigned in branch authorized allocations regardless of the customer's financial status. Therefore, there is a need to determine automatic maximum limits for customers based on rules to be laid down for branch authorized transactions.

Credit Committees E-Signature

Project: Formerly, the decisions taken by the committees evaluating credit allocations had to be printed out within a month from the date of the meeting, receive wet signatures from the committee members and be physically stored in archives. As a result of this project, committee decisions are now approved by the committee members separately as part of their workflow in a dynamic hierarchy. At the approval stage, the user logs in using his / her own e-signature device and password to sign the committee decision letter (PDF) electronically. Thus, the challenges and costs of the physical signing process were eliminated.

Under the project, amendments were also made to the infrastructure, allowing the number of committees to be reduced from 87 to 19 by grouping the relevant committees together.

24/5 Treasury Transactions: Prior to the project, foreign exchange and precious metals trading on the current system could only be executed between 08:30-17:30. Since margins would already open in pre-market trading, the transactions could only be carried out on the open margin. In order to be able to trade out-of-hours over closed margins and take positions automatically via the system, the StreamBase application was integrated with the system. Allowing customers to trade in foreign exchange and precious metals on a 24-hour basis will boost both customer satisfaction and trading profits of Treasury transactions.

Foreign Customer Identity Sharing System Interaction/Account Creation with Blue Card: To ensure integrity of foreign customers' data, all information concerning people with an 11-digit foreign identification number must now be obtained from the ID Sharing System and the Blue Card holders who relinquished Turkish citizenship can open accounts on an ID card issued by Council of Europe members and passport with their information also to be retrieved from the Identity Sharing System. Regarding Syrian/Iraqi customers, it is not allowed to block more than one account belonging to the customer.

API Banking Platform: The Kuveyt Türk API Market Platform (developer. kuveytturk.com.tr) was launched as part of the project. Thus, banking services are opened up through APIs and external developers are able to develop applications using these APIs. This allows for co-production opportunities involving employees, developers, start-ups, business partners and even other banks. The project, which ensures compliance with the European Union's Payment Systems Directive 2 regulation (PSD2) requiring banks to open up their

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Through the interaction of Kuveyt Türk ATMs and the Mobile Branch, customers are offered the facility to option of making cardless withdrawals within card transaction limits.

services via APIs, was launched on the external network on November 20, 2017 with 25 APIs. Among the APIs available on Turkey's first and most comprehensive banking API portal are those involving account activity and money transfers. The project won the first prize in the "Digital Channels" category and the second prize in the "Financial Inclusion" category at the IDC Technology Awards 2017.

BOA One: The R&D work on Kuveyt Türk's new generation interface technology BOA One produced results. The first prototype was produced at the beginning of 2017. The first example created with state-of-the-art technology serves as a model to the sector with various device integrations, multi-language support, the ability to operate on different processing systems, devices and platforms. Further investments were made in the project during this period. As of April, the system was completed with secure login screens, home page, menu, theme, integration of various devices, integrated workflow, Divit (document management system) and contract screens, logging mechanisms, dynamic screen and report generation mechanism, and screens for cash deposit, cash withdrawal, cash transaction itemization and various dynamically developed safety deposit screens. Through a rapid conversion and development process, the integration work of BOA One with the new design BOA Store, Kuveyt Türk's mobile application, was completed and dynamic screens and reports became viewable via BOA

One through a new feature. Similarly, conversion and development initiatives were launched across different fields and services which saw General Audit, SDLC Processes, Bank Valuation projects developed and employed as pilot schemes.

Facial Recognition Project: Biometric recognition systems constitute a key and rapidly growing area in the world of technology today. Based on the premise of physical or behavioral uniqueness of the individual, they can be employed as a method of comparison and verification for various applications. Face recognition technology, which forms one of these biometric identification systems, is increasingly deployed by banks as a verification method especially for online banking transactions. In order to introduce this feature for its mobile systems, Kuveyt Türk held meetings with various companies and initiated the contractual process for the preferred product. In the coming months, the product will be integrated into the Bank's mobile systems, providing both an edge in the industry and a reduction in suspicious transactions.

QR-code cash withdrawals at ATMs:

Through the interaction of Kuveyt Türk ATMs and Mobile Branch, customers are offered the facility to make cardless withdrawals within card transaction limits.

Audible ATM Menu for the Visually Impaired:

The project aims to convert ATM menus into audible instructions for the visually impaired. The audible menus are activated when a headset is

plugged into the jack on the ATM. Once the headset is plugged in, the ATM screen displays a visual illustrating the transaction involves Audible Menus, thereby informing other customers waiting in line. Audible menus provide transactions for withdrawals, deposits, credit card payments, cash advance withdrawals, balance enquiries, credit card enquiries. Furthermore, necessary work was undertaken to ensure other banks' customers can access the same services at Kuveyt Türk ATMs. With this effort, the transaction set of ATM Ortak Nokta was expanded.

Collection Modeling Individual Behavior Score:

A modeling study was carried out with the consultant company on the collection modeling infrastructure completed last year in order to optimize the utilization of human resources and to maximize collection rates. The model ensures the provision of the data set to be used and integrates the decision trees resulting from the model into the BOA and the collection modeling screens. As a result of the integration, the agents are automatically notified about what action to take for which customers based on the directions of the decision trees. Furthermore, customers to be sent SMS notifications are also automatically determined by the outcome of the decision trees.

Lawyer Tracking System: The Lawyer Tracking System facilitates the Bank's communication with the contracted lawyers and enables tracking of cases for customers under legal monitoring. The project, which aims to offer a common access point for information about ongoing litigation

processes and to transfer procedures conducted manually thus far by phone and e-mail traffic to a web-based platform, was developed on the Web Corporate infrastructure.

24/7 Card-to-Card Transfers:

Development work was carried out to integrate into the card-to-card money transfer system provided by the Interbank Card Center. Through this system, customers with a Kuveyt Türk credit card or debit card can transfer money to any bank card via the Mobile/Internet Branch at any time of the day. The service also eliminates disadvantages of EFT system's working time restrictions while offering customers flexibility with their money transfers.

Foreign Trade Document Tracking System:

Document is defined as the whole set of documents required by the importer to clear goods from customs. Kuveyt Türk customers importing goods can retrieve documents delivered to the Bank for the clearance of the imported goods from the branch they have their account with. These documents are delivered to the Foreign Trade Operations Unit by foreign courier companies. Screen entries of the received documents are made and the customer is notified by e-mail, and the Correspondence Unit dispatches the documents physically to the customer's branch. Foreign Trade Document Tracking System was established to detect potential issues, spot possible delays, and avoid risks such as the loss of documents over the course of this process.

Türk Telekom Fiber Optic Communication Project - Phase 6:

The sixth phase of the fiber optic communication facility protocol, which was launched with Türk Telekom almost seven years ago to establish uninterrupted and high quality communications between the branches and the data center, is nearing completion. Some 403 of the 416 locations connected to the data center had the fiber optic communication infrastructure installed and 96.8% of the locations were provided with uninterrupted, high quality and high speed access.

SQL Online Backup Project: All of the database servers were connected to the Online Backup System, and the backup data compression ratio was increased from 3.5 times to 10 times through the project. The backup speed was increased by using multiple channels for each database. The recovery procedures which were previously conducted through a long, two-stage process were upgraded to run directly on Microsoft SQL in one go. As a result of these improvements, up to 95% savings were achieved on time and capacity.

Windows 10 Transition: A total of 1,290 computers and 920 personal scanners allocated to users at the Head Office, Banking Base (KTBU) and branches, which were deemed inadequate to deliver high performance required for existing banking applications and were at the end of their electronic life were replaced with more technologically advanced and better performing devices. A total of 6,475 user computers were upgraded to Windows 10 operating system with their Office applications upgraded to Microsoft Office 2016 Pro Plus to enable Kuveyt Türk's banking applications to operate on a more stable, reliable and high performance operating system.

DNS Firewall Positioning Project:

The project ensured that all non-institutional domain name resolution (DNS) requests from Kuveyt Türk's IT infrastructure are filtered through a special DNS security system to prevent access to harmful domain names. Thanks to this project, the entire IT infrastructure obtained security protection at the top network layer.

Network Isolation Project: A Network Isolation Project was conducted to create safe working environments for employees and applications to work in accordance with defined and designated rules. All network communication is managed and monitored via firewall devices.

Application Release Automation Project:

The IT Automation Project aimed to facilitate the collaboration of Kuveyt Türk IT operations units

with each other, and to produce software and services swiftly. Conducted in-house at Kuveyt Türk, the objectives of the project involved providing faster delivery of product functions, establishing a stable system, ensuring that the systems are traceable and reportable, producing faster solutions against potential errors in automated processes and to improve the operational performance. Under the revised structure, the operational processes became more traceable, controllable, loggable and reportable.

Internet Branch Test Automation via Selenium:

The test automation solution for the Internet Branch was updated and developed via the open source coded test automation solution Selenium. By deploying Selenium's flexible, reliable and rich features particularly for regression testing, the scope of the Internet Branch test automation is expanded and automated tests are conducted weekly in test environments with their results duly reported. Through this process, feedback about the development quality is received at an earlier stage and productivity in the software development life cycle is increased.

Database Performance Improvements and Updates:

The process for blocking monitoring was redesigned and circulated. To provide performance improvement, the scripts generating a load on the system were monitored and the software teams were supported when necessary. The scope of planned archives was broadened. There are plans to divide the BOA database into smaller databases. All index maintenance functions were redesigned and rolled out across all the real environments. In order to keep the system up-to-date, SQL SP3 CU2 was promoted on real media servers. There were plans for SQL 2016 upgrade, and SRVAPPLOG server had the SQL 2016 upgrade installed. In accordance with the PMC, appropriate sample applications were made available in the system via Raas reports. Associated products of SQL in use, such as SSIS, SSRS SSAS were upgraded to the latest version.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

GROWING WITH OUR VALUES

While contributing to the banking sector's development, Kuveyt Türk has also carried significant social responsibility projects in line with the Bank's social values.

Kuveyt Türk aims to provide benefit for the community with the support of its employees in all its social responsibility projects that they supported. The goal is to keep our cultural heritage alive and leave an environment in which values are passed along to future generations.

While the Kuveyt Türk contributes to the development of the banking sector, it also takes ownership of cultural assets based on the values of its communities to execute important social responsibility projects. The main purpose of Kuveyt Türk's social responsibility projects is providing benefits for the society.

Kuveyt Türk aims to provide benefit for the community with the support of its employees in all its social responsibility projects that they supported. The goal is to keep our cultural heritage alive and leave an environment in which values are alive to future generations.

Some of the projects undertaken include:

Ortaköy Büyük Mecidiye Mosque Restoration

The Ortaköy Büyük Mecidiye Mosque were built toward the end of the Ottoman Period or in other words around the middle of the 19th century, was restored with the support of Kuveyt Türk over a three-year period and opened for worship in 2014. It has a special place in historic buildings that compose the identity of İstanbul.

The restoration efforts carried out with a duty of "preserving the landmarks of the city and safeguarding the traces of history"

were maintained meticulously and carefully in keeping with this aim, and the mosque was restored in a manner that stayed true to its historic fabric. The restoration work not only renovated the existing structure, but also revealed the traces of the history and culture of Büyük Mecidiye Mosque and the congregations it hosted since its construction.

Restoration of the Tomb of the Famous Composer İttri

Considered one of the founding fathers of classical Turkish music, the great composer İttri's (Buhurizade Mustafa Efendi) tomb at Edirnekapi Cemetery was restored by Kuveyt Türk in 2006 and reopened for visits.

Restoration of the Saliha Sultan Water Dispenser and Fountain, Bursa Kozahan Fountain

Other historical works that Kuveyt Türk undertook restoration efforts for, to give historical assets that were in danger of disappearing back to the community, involve İstanbul Azapkapı Saliha Sultan Sebil (charity fountain) and Bursa Kozahan Shadirvan.

The Saliha Sultan Fountain, one of the best examples of an 18th century combination water dispenser and fountain, was built in 1732–33 by Hassa Mimarbaşı Kayserili Mustafa Ağa during the Tulip Era. The fountain was restored in 2006 through cooperation between Kuveyt Türk

Katılım Bankası and the Directorate General of Foundations to the condition where water now flows again in the fountain.

The Bursa Kozahan Fountain was restored in 2008 under the control of the Directorate General of Foundations by Kuveyt Türk Katılım Bankası. The mosque and fountain were restored according to the original structure. The Koza Han located in the wide space between the Ulucami and the Orhan Mosque and built on the orders of Bayezid the Second in 1492. The architect of the inn is Abdul Ula bin Pulad Shah.

International Islam Economy and Finance Application and Research Center

Kuveyt Türk supported the construction of the Istanbul Sabahattin Zaim University (IZU) International Islam Economy and Finance Application and Research Center building with a donation of TL 6 million to contribute to the expansion of work done in the field of interest-free banking.

Support for Humanitarian Aid Campaigns

Kuveyt Türk supports the projects of nongovernmental organizations and humanitarian aid both as a company and with the contributions of its staff.

A campaign to help Somalia and Africa, Through its donations, Kuveyt Türk supported the “Africa is Not Alone” campaign, the July 15 Solidarity Campaign, victims of the Pakistan Flood Disaster, Van Earthquake and Soma mine accident, and the Muslims who were subjected to forced migration from the Rakhine region. Furthermore, through the “Support the Hope” project marking its fifth year, Kuveyt Türk contributed a total of TL 1,629,000 to KAÇUV’s Family Home.

Africa is not Alone: With its support for “Africa is Not Alone” campaign to combat drought and famine in Somalia and the rest of Africa, Kuveyt Türk provided help for those in need by collecting donations of employees and customers.

Van Earthquake: Kuveyt Türk provided support through donations to victims in the Van Earthquake that occurred on October 23, 2011 leaving behind 604 dead and 4,152 casualties as well as extensive property damage. As part of the support the Bank provided, all commissions on vehicle and home financing were removed for customers registered in the Van area between certain dates in 2013.

Soma Disaster: Kuveyt Türk supported the families of victims with donations during the Soma Mining Accident in 2014, which caused many citizens to lose their lives. TL 1 million in donations from Kuveyt Türk were given to the victims in need through AFAD. Kuveyt Türk, which also started an aid campaign among its staff, sent the collected donations to Soma.

July 15 Solidarity Campaign: As a supporter of compassion, unity and solidarity, Kuveyt Türk donated TL 1 million to the July 15 Solidarity Campaign started by the Prime Ministry.

Pakistan Flood Disaster: The Bank organized a donation campaign in response to the flood disaster Pakistan faced in 2010. Through donations and the cooperation of the Turkish Red Crescent, the “Kuveyt Türk Brotherhood Village” was established, providing shelter for nearly 100 families affected by the disaster. The essential requirements of the victims were fulfilled for a year, and aid involving food, clothing, school supplies were delivered by Kuveyt Türk to those in need.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Guided by the precept that “People are our utmost social responsibility,” Kuveyt Türk continues to come to the aid of those in need as an institution embracing its social responsibilities.

A HELPING HAND FOR ARAKAN



TL 7 Million

The donations of Kuveyt Türk employees and customers totaled of TL 7 million.

The aid check that will be used to provide shelter, food, clean water and medicine for Rakhine refugees was delivered by Kuveyt Türk CEO Ufuk Uyan to the Turkish Red Crescent President Dr. Kerem Kınık on September 22, 2017. Kuveyt Türk continued its support for Rakhine Muslims through a humanitarian aid campaign among its employees and customers.

Through the generous contributions of Kuveyt Türk employees and customers the donations collected reached TL 7 million.



100 thousand people

A total of 24 thousand temporary housing units will be built, providing shelter for almost 100 thousand people.

Through the donations collected, 24 thousand temporary housing units will be constructed by the Turkish Red Crescent for those persecuted and displaced from their homes, thereby providing 100 thousand people with shelter. In addition to houses, essential living spaces such as schools, mosques, and hospitals will also be built.

Thus far, the number of Rakhine Muslims who fled the persecution in Myanmar and took refuge in Bangladesh exceeds 1 million. Of those, 240 thousand were children and 52 thousand were pregnant women.

Acting with the mission to embrace social responsibility since its founding, Kuveyt Türk supports projects that contribute to people and society.

HOPE FOR CHILDREN WITH CANCER



“Support the Hope”

Kuveyt Türk has supported the project “Support the Hope” project since 2013.

Kuveyt Türk has provided support since 2013 to the “Support the Hope” project carried out by KAÇUV to raise awareness for cancer, the most devastating and widespread disease of our era, and to provide hope for children receiving cancer treatment.

Under the project, which continues throughout April 23rd National Sovereignty and Children’s Day, Kuveyt Türk makes donations equivalent to the number of transactions made by all personal bank cards. The donations go to support the “Family Home” built for child cancer patients.



TL 1,629,649

Under the project, donations raised since the beginning of the campaign has reached TL 1,629,649.

Under the project, the campaign launched in 2017 raised TL 413 thousand, bringing the total donations collected since the beginning of the campaign to TL 1,629,649.

The annual expenses of the Family Home, which provides accommodation and social living resources for child cancer patients and their families in need during treatment, are covered with the donations collected under the Support the Hope project every year.



More than 300 families

More than 300 families have benefited from the Family Home providing social and psychological support.

More than 300 families have benefited from the Family Home providing social and psychological support. The second Family Home under construction to bring hope for more children and their families is expected to be inaugurated in 2018, in an area close to Pendik Training and Research Hospital in Istanbul.

AWARDS

SUSTAINABLE ACHIEVEMENT RECOGNIZED BY AWARDS

Sağlam Kart was named “Best New Generation Credit Card” in the “World’s Best Islamic Financial Institutions” survey by Global Finance magazine.

Kuveyt Türk has provided innovative services to customers since its founding. Over the years, the Bank has received numerous awards in recognition of its efforts to consistently deliver the best solutions, work to develop participation banking, steps to improve these services and commitment to conducting world class value-added research.



Kuveyt Türk was awarded by the Talent Board Foundation in the Candidate Experience Competition (CandE), which measures the interview experiences of candidates for recruitment across the world.



The Bank was presented with an award in the “Best Islamic Capital Market Transaction of the Year” category at the Bonds & Loans Turkey Awards.



Kuveyt Türk received an award in the “Participation Banking” category for the third year running at the A.L.F.A. Awards for “Best Marketers Who Manage Customer Experience.”



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 in Europe and the Middle East region on YouTube.



At the fifth edition of the Turkey Ethics Awards held by the Centre of Ethical Values (EDMER), Kuveyt Türk was recognized for its acute sensitivity regarding ethics with its third award.



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.



In the "World's Best Islamic Financial Institutions" survey by Global Finance magazine, Sağlam Kart was named "Best New Generation Credit Card" while Kuveyt Türk's 100% owned subsidiary KT Bank AG received the award for "Best Up-And-Coming Financial 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 Sixth Private Sector R&D and Design Centers Summit organized by the Science and Technology Directorate of the Ministry of Science, Industry and Technology.

We continue to move forward with our achievements and appropriate management strategies while pioneering innovations in the industry for more than a quarter century.

SECTION III: MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES

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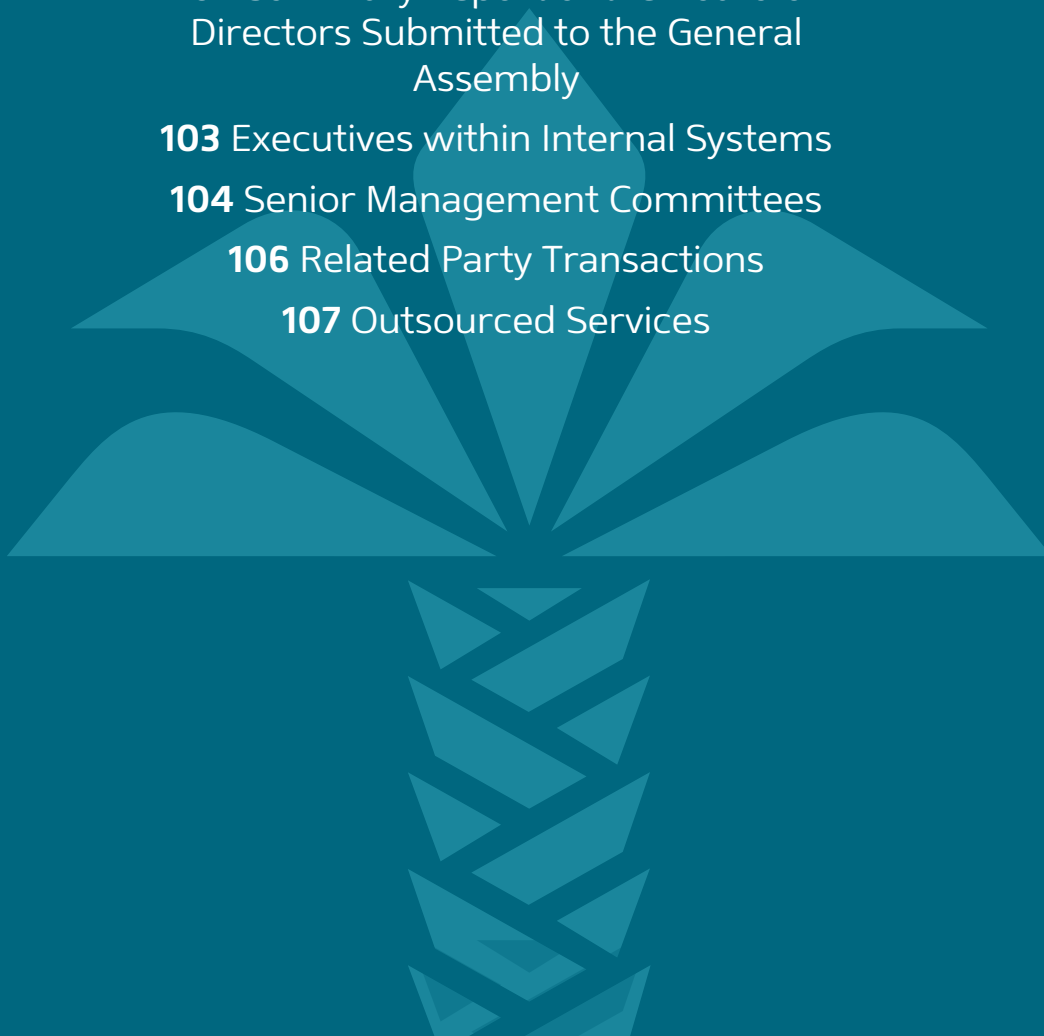
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BOARD OF DIRECTORS



Hamad Abdulmohsen Al Marzouq **Chairman of the Board of Directors**

Mr. 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, Central Bank of Kuwait between 1990-1998 and Ahli United Bank Bahrain between 1998-2014. 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 the area of Political Sciences at the Social Sciences Institution 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 after having served at different positions in this institution. Mr. Ertem worked as the Deputy Secretary at the Prime Ministry between 2007 and 2010, and he was assigned to General Directorate of Foundations in 2010. Mr. Ertem was assigned as Member of Board of Directors of Kuveyt Türk in 2002. He also serves as the Member of Bank's Internal Systems Committee, Audit Committee and Corporate Social Responsibility Committee.



Khaled N. Al Fouzan **Member of the Board of Directors**

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



Mazin Saad 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 Corporate Banking Department of the Central Bank of Kuwait as Bank Relations Director. In 2001, he was appointed as the Managing Director of the Bank's Treasury Unit. During his professional career, he assumed numerous leadership roles at the National Bank of Kuwait (NBK) including his role as a member of the Management Executive Committee from November 2010 to 2014. He also held the positions of Group General Manager, Retail Banking Group from 2011 to 2014 and Group General Manager, Corporate Banking Group from 2008 to 2011. He was also a member of the Board of Directors of the Central Bank of Kuwait from November 2010 to 2014. He possesses vast banking experience, spanning more than 20 years and since October 2014, he has been Managing Director of Kuwait Finance House. 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

Mr. 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. Between 2003-2006, Mr. Al-Kharji served as Senior Investment Division Manager and Senior Vice President at LMH between 2008-2013. 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 Directors

Mr. Midani graduated in 1988 from the Lebanese American University's in Business Administration. In 1994, he obtained a postgraduate degree in Accountancy from Concordia University Accounting in Montreal. His career includes various posts in the field of auditing. This included 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. He then worked for the Islamic Development Bank (IDB) since 2001. In IDB, he held the post of Lead Internal Auditor and since year 2010 he was the Head of Equity Investment Division. Having more than 20 years of experience in audit, accounting, financial analysis and management consulting, Mr. Midani is a Member of Board of Directors of Kuveyt Türk since 31 March 2015. Mr. 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 Directors

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 Administrative Financial Affairs President 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 15.04.2011 and he is member of the Bank's Corporate Governance Committee. Mr. Alpaslan is also responsible for Ethical Banking.



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 the Chief Executive Officer Head Assistant. Mr. Uyan was assigned as the Chief Executive Officer in 1999 and he continues his duty as Member of Board of Directors and Chief Executive Officer at Kuveyt Türk. Mr. Uyan is also on the Executive Committee, Loan Committee, Remuneration and Nomination Committee and the Corporate Social Responsibility Committee.

SENIOR MANAGEMENT



Ufuk Uyan

Member of Board of Directors and Chief Executive Officer

His resume is presented in the Board of Directors section.



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 from 2000, and he was assigned as the Vice President of Sworn Auditors Committee of banks between 2002 and 2003 at the Banking regulation and Supervision Agency. 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 USA, State University of New York at Albany and Mr. Karaca has a post graduate thesis work on International Banking and Capital Markets. Mr. Karaca joined Kuveyt Türk as the Chief Financial Officer in July 2006 and he still serves under this title.



A. Süleyman Karakaya

Executive Vice President - Corporate and Commercial Banking

Mr. Karakaya 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 and he worked at the Audit Committee, Risk Management department Loans Department and Regional Directorates of the same bank between 1981 and 2003. Mr. Karakaya has been working as the Executive Vice President of Corporate and Commercial Banking at Kuveyt Türk since 2003.

SENIOR MANAGEMENT



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 and he was assigned to Internal Audit and Inspection Department in 1996 and he served as the Head of Internal Audit and Inspection Department between 1998 and 2000. Mr. Yılmaz was assigned as the Individual Banking Manager in 2000 and after having worked at the Individual Banking Department for five years, 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.



Dr. Ruşen Ahmet Albayrak
Executive Vice President - Treasury and International Banking

Mr. Albayrak graduated from the Industrial Engineering Department of Istanbul Technical University. He received Post graduate degree in Organizational Leadership and Management at the University of North Carolina at Pembroke (USA) in 1993 and PhD degree on Technology Management at Istanbul Technical University, from the 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.



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. Nurettin 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 29 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.



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. Since October 2012, Mr. Demir has been serving 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 Bilişim Sistemleri ve Pazarlama Ticaret A.Ş. as a Board Member.

SENIOR MANAGEMENT



Mehmet Oral
Executive Vice President – Retail
Banking

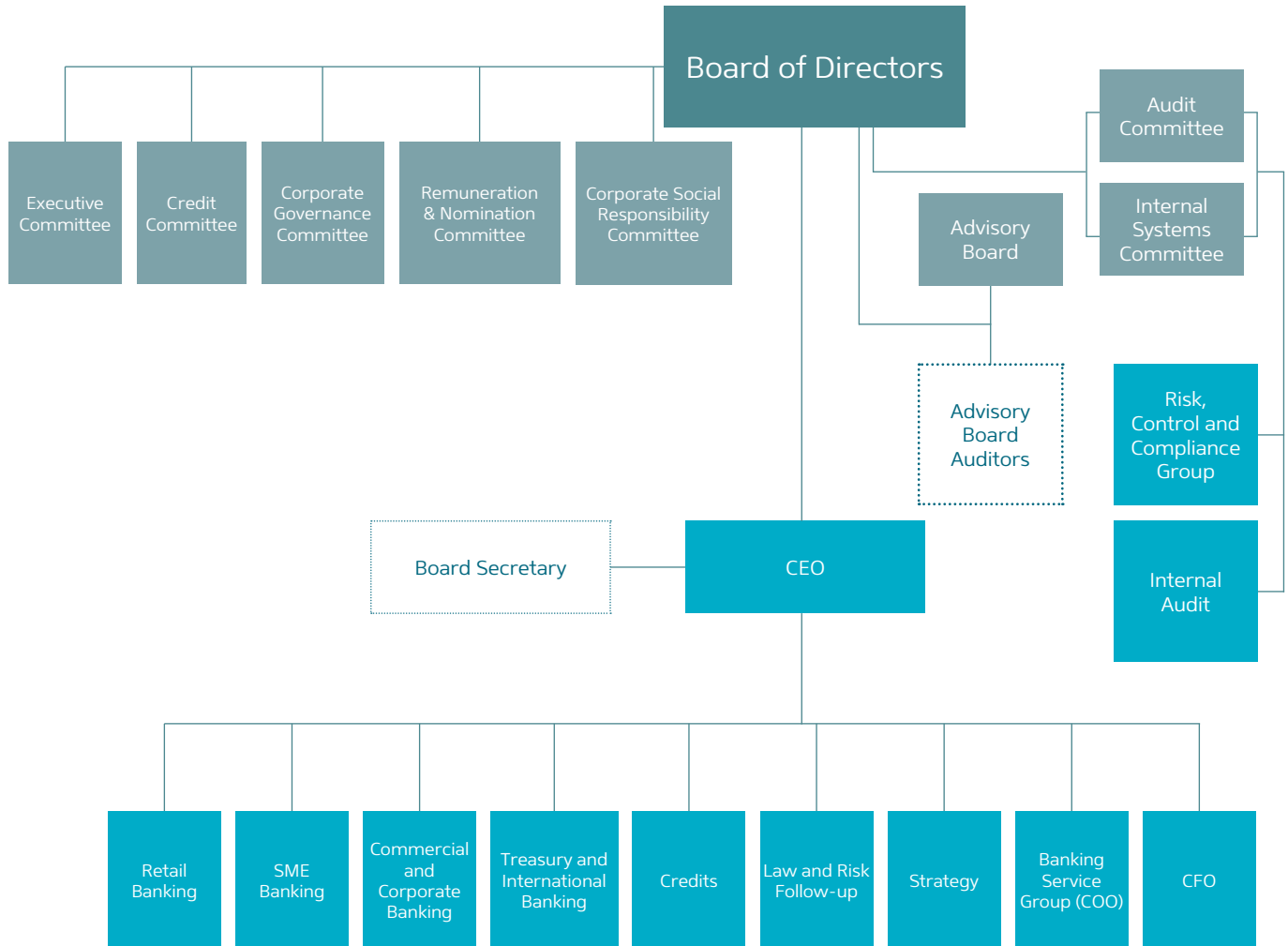
Mr. Oral graduated from the Business Administration Department of Uludağ University. He began his career in the Kuveyt Türk family at the Head Office Branch in 1992. He worked as the manager in the İMES, Bursa and Merter branches between 2000 and 2005. He was assigned as the Regional Manager at the Istanbul European Side Regional Directorate in 2005 after the transition to Regional Directorate structure. After having served 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.



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.

ORGANIZATIONAL CHART



SUMMARY REPORT OF THE BOARD OF DIRECTORS SUBMITTED TO THE GENERAL ASSEMBLY

Esteemed Shareholders,

2017 was another year of volatility in the world. Despite several political crises, the world economy nevertheless made major strides towards recovery in the tenth year of the global financial crisis, overcoming the consequences of the crisis to a considerable extent.

Turkey's economy has demonstrated a remarkable growth performance in 2017. After achieving 5.3% growth in the first quarter, and 5.4% in the second quarter, Turkey outperformed expectations particularly in the third quarter with 11.1% growth. The incentives employed by the government played a major part in achieving such fast-paced growth.

It was a successful year for the banking industry thanks to the impetus provided by the rapid growth in Turkish economy. As of the end of 2017, banking sector assets increased by 19.3% and liabilities by 21%. Meanwhile, growth among participation banks was above the industry average. By the end of 2017, participation banks increased their profits by 43.1%, boosting their total assets by 20.5% and total funds allocated by 25.7%, proceeding confidently to attain their goal of a 15% share in the industry by 2023, the 100th year of the republic.

Kuveyt Türk in 2017

As the pioneer in Turkey's participation banking industry with its dynamic approach to corporate governance, innovative products and involvement in international markets, Kuveyt Türk concluded another successful year, outperforming its growth targets.

Achieving over 26% growth in funds allocated, over 18% in assets, over 27% in net period profits thanks to a renewed focus on increasing productivity in 2017, Kuveyt Türk boosted its total assets to TL 57 billion, and net profits to TL 716 million.

Over the past year, total funds allocated rose to TL 38 billion, and total funds collected reached TL 40 billion. The Bank's non-performing loan ratio remained well below the industry average at 2.17%, while the Bank's return on equity climbed to 15.85%.

Constantly introducing innovative products and services to the industry, Kuveyt Türk accomplished the following key achievements in this context in 2017:

- Launched the new generation credit card Sağlam Kart,
- Broke the record for the highest value single-issue lease certificate in TL denomination in Turkey,
- Acted as the intermediary for issuing of lease certificates worth TL 50 million with a 728-day maturity,
- Also acted as the intermediary for Turkish Grain Board (TMO) to issue lease certificates worth TL 100 million with a 88-day maturity, with physical agricultural commodities used as underlying assets to finance trade for the first time in Turkey,
- Inaugurated the Lonca Entrepreneurship Center which will provide a range of opportunities and assistance including training, mentoring, consultancy and financial backing,
- Supported the development of the FinTech ecosystem and offered young entrepreneurs an environment to implement their ideas by organizing the Hackathon Digital Banking Software Project Competition,
- Realized another groundbreaking initiative in the interest-free banking sector by launching the Kuveyt Türk Banking School.

Alongside all these innovations, Kuveyt Türk's achievements were crowned with new awards in 2017 as in previous years.

In the "World's Best Islamic Financial Institutions" survey by Global Finance magazine, our new credit card Sağlam Kart was named "Best New Generation Credit Card" while Kuveyt Türk's wholly-owned subsidiary KT Bank AG received the award for "Best Up-And-Coming Financial Institution."

Kuveyt Türk received the "Best R&D Center" award in the "Banking and Finance" category at the Sixth Private Sector R&D and Design Centers Summit organized by the Science and Technology Directorate of the Ministry of Science.

Kuveyt Türk develops solutions for the society's changing financial needs along with innovative products and services perfecting customer experience. With trailblazing products in the Turkish banking industry including Golden Days, Gold-to-Gold Participation Account, Quarter Gold Coin Account, and Gold-Dispensing ATMs, Kuveyt Türk helped inject almost 13.1 tons of gold from under-the-mattress savings into the national economy.

Customer oriented technology

Having introduced innovations such as the interest-free digital banking platform Senin Bankan or XTM Branch combining the functions of a call center, conventional branch and ATM, Kuveyt Türk continues to boost its investments in technology as Turkey's only bank with two R&D centers. Our goal is to offer the widest possible array of banking transactions on mobile platforms with a customer-oriented approach, enabling Kuveyt Türk customers to swiftly conduct a range of transactions from transferring funds to paying bills or from precious metal and foreign exchange transactions to trading in shares wherever they are, without paying any fees.

Serving customers at 399 branches with over 5,750 employees across Turkey, Kuveyt Türk established another 14 branches in 2017, achieving 85% geographical coverage.

The outlook for 2018

The prevailing view among economists is that the world economy will grow at a rate between 3.3% and 3.7% in 2018. As for the Turkish economy, the spillover effects of global events could have a significant impact in 2018. Steadfastly championing the participation banking principles, service quality and solid banking values since its inception, Kuveyt Türk will continue to extend the scope of its services in 2018. The Bank will expand its physical branch network further in 2018 while diversifying digital banking services.

We would like to extend our gratitude to our competent, highly educated, young and dynamic staff as the biggest contributors to the achievement of our success, and to our stakeholders for their unwavering support.

Board of Directors

EXECUTIVES WITHIN INTERNAL SYSTEMS

Name and Surname	Duty	Educational Status
H. Cevdet Yılmaz	Chief Risk Officer	Bachelor's
Bahattin Akça	Head of Internal Audit and Inspection	Bachelor's
Fadıl Uluşık	Head of Internal Control	Post Graduate
Vefa Okan Arık	Head of Risk Management	Bachelor's
Hayrettin Çapoğlu	Head of Compliance	Post Graduate

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 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 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 at Kuveyt Türk in 1996. Since September 2007, he has been the Head of Internal Audit and Inspection.

Fadıl Uluşık

Head of Internal Control

Mr. Uluşık graduated from Istanbul University, Faculty of Political Sciences in 1996. 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 post graduate 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 the Head of Compliance.

SENIOR MANAGEMENT COMMITTEES

Audit Committee

Name and Surname	Duty	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 within 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, along with the outcomes of its activities, reporting its opinions 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 periods no longer than six months.

Internal Systems Committee

Name and Surname	Duty	Date of Assignment
Adnan Ertem	Chairman, Board Member	29.03.2007
Khaled Nasser Abdulaziz Al Fouzan	Member, Board Member	29.03.2007
Fawaz KHE Alsaleh	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 in competencies in practices concerning internal systems as detected by the Banking Regulation and Supervision Agency (BRSA) or independent auditors,
- Evaluating errors or in competencies detected and ensuring that control and internal audit activities are directed at areas where same or similar errors or in competencies may occur.

Assets and Liabilities Committee

Name and Surname	Duty
Ufuk UYAN	President, Member of Board of Directors, Chief Executive Officer
H. Cevdet YILMAZ	Member, Chief Risk Officer
A. Süleyman KARAKAYA	Member, Executive Vice President, Corporate and Commercial Banking
R. Ahmet ALBAYRAK	Member, Executive Vice President, Treasury and International Banking
Ahmet KARACA	Member, Executive Vice President, Chief Financial Officer
Bilal SAYIN	Member, Executive Vice President, Loans
Mehmet ORAL	Member, Executive Vice President, Retail Banking
İrfan YILMAZ	Member, Executive Vice President, Banking Services
Nurettin KOLAÇ	Member, Executive Vice President, Law and Risk Follow-up
Aslan DEMİR	Member, Executive Vice President, Strategy
Abdurrahman DELİPOYRAZ	Member, Executive Vice President, SME Banking
Ahmet Tarık TÜZÜN	Member, Group Manager, Treasury

Duties and Responsibilities

- This is the senior management committee responsible from Bank's assets-liabilities and financial management. Gathers weekly on regular basis.

Participation in Committee Meetings

The Board of Directors gathers when necessary in line with the Articles of Association and takes decisions based on demands. Board of Directors gathered for six times in 2017.

The Audit Committee has been tracking Bank's audit and risk operations within legal regulations, especially the Banking Law, and takes actions on these. The Audit Committee gathered for six times in 2017.

The Internal Systems Committee meetings, which are held in order to manage the risks more efficiently and where managers of units within internal systems also attend, were held for six times in 2017.

The Loan Committee has undertaken the duty of examining and approving the loans up to 10% of equities and gathered for six times in 2017.

The Assets and Liabilities Committee, responsible from the financial management of the bank and supervising the assets-liabilities balance of the bank, gathered for 51 times in 2017.

Unless they have excuses, committee members were present during the meetings.

RELATED PARTY TRANSACTIONS

Information about the risk group transactions where the bank is involved are given on page 164 of the annual report.

OUTSOURCED SERVICES

Brink's Güvenlik Hizmetleri A.Ş.	Providing transportation and storage services for local and international precious metals and bank notes worth of maximum USD 100 millions
Kuryenet Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş.	Providing debit card and credit card deliveries
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.	Providing pay roll services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Providing ATM and credit card software infrastructure support services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Providing credit card and business software infrastructure support services
İstanbul Altın Rafinerisi A.Ş.	Preparation of certified gram gold and ATM golds
Collection Platform Yaz. Dan. A.Ş.	Providing call service for Bank's debtors by bank employees
Komtaş Bilgi Yön. ve Dan. Tic. A.Ş.	Supply and maintenance service for financial control reporting (ACL) software
32 Bit Bilgisayar Hizm. Ltd. Şti.	Providing 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.	Providing Swift Alliance software maintenance and support services
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply, maintenance and update services for AML software
Bicentrix Yazılım Dan. Ltd. Şti.	Providing budget application support service
Karash Yazılım Geliştirme ve Danışmanlık İthalat İhracat Ltd. Şti.	Outsourced IT staff hiring
Loomis Güvenlik Hizmetleri A.Ş.	Provision of cash/precious metal transportation services (including ATM and XTM) with a maximum value of USD 100 million
Bilişim Sanayi ve Ticaret Ltd. Şti.	Providing execution and operation services for pay roll system
Saytem Sağlık Hizmetleri Otomasyon Gıda Tem. Nak. San. Tic. Ltd. Şti.	Outsourcing administrative services staff
Desmer Güvenlik Hizmetleri Tic. A.Ş.	Providing cash transportation service and money transportation service for ATMs and XTMs
Call Center Resources Danışmanlık Ltd. Şti.	Providing Interactive Intelligence Customer Interaction Center software license, maintenance and support services
Desmer Güvenlik Hizmetleri Tic. A.Ş.	Cash transportation service and money transportation service for ATMs and XTMs
G4S Güvenlik Hizmetleri A.Ş.	Cash transportation service and money transportation service for ATMs and XTMs
Aktif İleti Kurye Hizmetleri A.Ş.	Distribution of debit card and credit cards to customers, having agreements signed by customers and delivery of related documents to the Bank
Kartega Yazılım ve Danışmanlık Ticaret Ltd. Şti.	Providing Outsourcing IT staff
Bilge Adam Bilgisayar ve Eğitim Hizmetleri Sanayi ve Ticaret A.Ş.	Providing Outsourcing IT staff
Nadir Metal Rafineri San. ve Tic. A.Ş.	Providing Bullion Gold Conversion Service (conversion of large bullion gold to kilos bullion gold)
Architech Bilişim Sist. ve Paz. A.Ş.	Software development, source rental and providing advisory services
Pil Eğitim Bilişim Mim. Tic. Ltd. Şti.	Employee Commitment and Communication Platform Implementation, Supply, Maintenance and Support Services
Banksoft Bilişim 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.	Face recognition system project
Maya Sosyal Hizmetler Dan.İnş.Tur.İth.İhr.San.Tic.Ltd.Şti.	Outsourcing administrative staff

Our efforts to introduce
the advantages and
investment tools of
participation banking to
more people are ongoing.

SECTION IV: FINANCIAL INFORMATION AND RISK MANAGEMENT PRACTICES

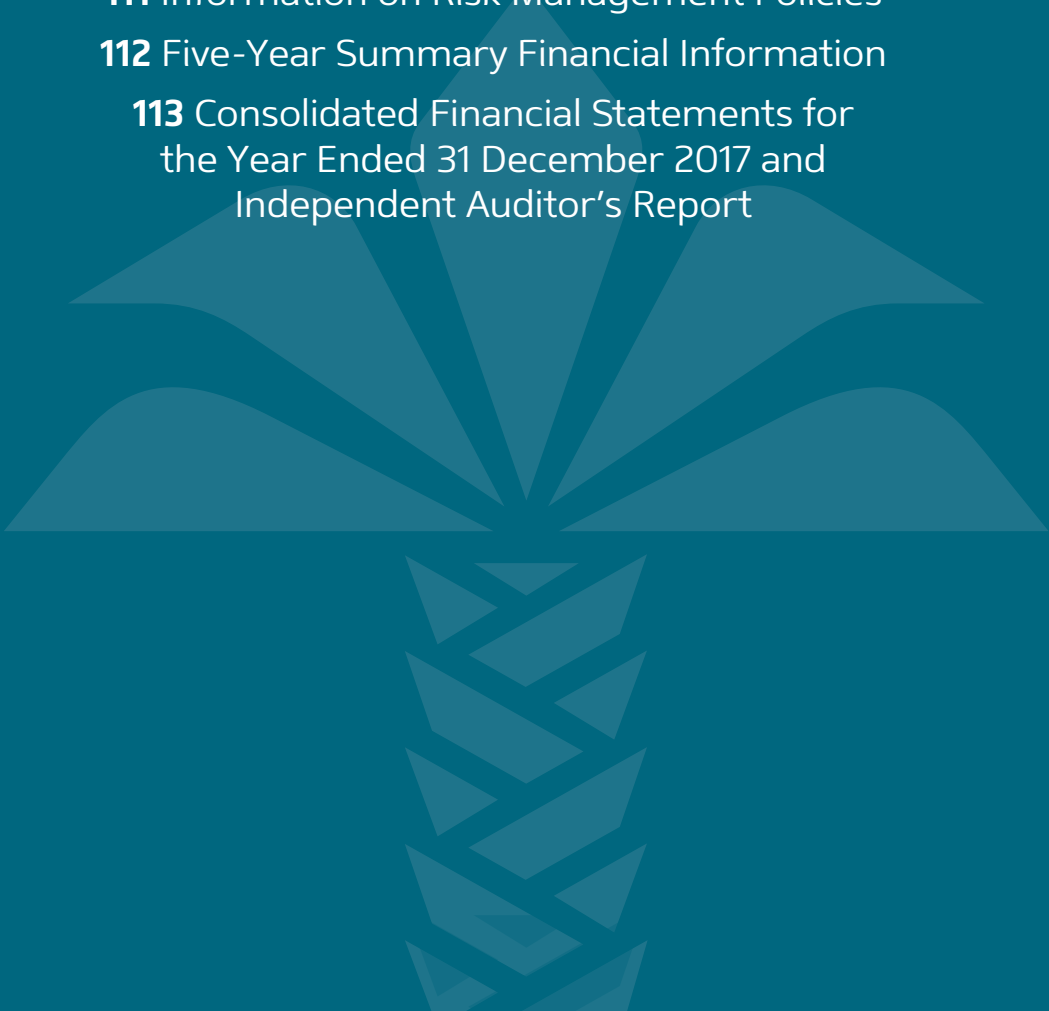
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Independent Auditor's Report



ASSESSMENT ON FINANCIAL STATUS, PROFITABILITY AND SOLVENCY

Kuveyt Türk Participation Bank's total assets increased 18.4% and reached TL 57 billion and equities rose 16.1% and reached TL 4.9 billion. Concordantly, Bank's capital adequacy ratio reached above the legal requirement at 17.32%. 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 KUYEYT 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

Foreign Currency		Local	
Long Term	BBB-	Long Term	AAA (tur)
Short Term	F3	General Outlook	Stable
General Outlook	Stable	Individual	bb-
		Support	2
Local Currency		Country Risk	
Long Term	BBB-	Foreign Currency Long Term	BB+
Short Term	F3	Local Currency Long Term	BBB-
General Outlook	Stable	General Outlook	Stable

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 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.

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.

INFORMATION ON RISK MANAGEMENT POLICIES

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)	2013	2014	2015	2016	2017
Profit Sharing Income	1,332,063	1,897,864	2,436,016	2,971,704	3,713,950
Profit Sharing Expenses	548,888	815,583	1,128,738	1,498,161	1,759,335
Net Fee and Commission Expenses	240,477	267,934	268,003	335,836	385,018
Other Revenues	234,655	193,929	344,247	552,200	537,883
Other Expenses	824,902	986,404	1,302,950	1,665,618	1,973,872
Tax Charge	72,230	99,704	116,332	131,237	187,996
Net Profit for the Period	361,175	458,036	500,246	564,724	715,828
Total Assets	25,602,525	33,750,746	41,860,627	48,427,976	57,320,126
Total Equities	2,418,506	3,236,703	3,700,724	4,239,859	4,923,347
Capital Adequacy Ratio (%)	14.43	15.21	14.23	18.19	17.32

* IFRS Consolidated Figures

**KUVEYT TRK KATILIM BANKASI
ANONİM ŐİRKETİ AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2017 AND
INDEPENDENT AUDITOR’S REPORT**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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 2017, 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 2017, 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>Allowance for probable losses on due from corporate and commercial financial activities</p> <p>At 31 December 2017, due from financing activities were TL 30,452,322 thousands against which allowance for impairment on due from financing activities of TL 766,954 thousands were recorded ending with a net carrying amount of TL 29,685,368 thousands. The details are disclosed in Note 7 of the consolidated financial statements.</p> <p>For impairment allowances, a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be done. So there is a risk of misstatement in the calculation of the allowance related to the classification of performing / funds in arrears due from financial activities in accordance with IAS 39.</p> <p>Furthermore, the specific allowances are made against the carrying amount of due from financing activities that are identified as being impaired based on regular reviews of outstanding balances to reduce these due from financing activities to their recoverable amounts. In assessing the recoverable amounts of the due from financing activities, the estimated future cash flows are discounted to their present value using the loans' original yield which requires management's significant judgement to exercise.</p> <p>Because of the significance of these judgements and the size of due from financing activities, the audit of allowance for probable losses on due from corporate and commercial financing activities is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on due from corporate and commercial financing activities (specific and collective) in accordance with IAS 39 in the IFRS financial statements.</p>	<p>We reviewed the provisioning methodology implemented by the Group. We understood and tested the key controls over the classification and provisioning methodology such as; system based and manual controls over the timely recognition of impaired due from financing activities, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which includes the management meetings for the approval process of allowance for probable losses on due from financing activities.</p> <p>In addition to testing the key controls, we selected samples of due from financing activities outstanding at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Group's management. Our selected samples also included non-performing due from financing activities, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing due from financing activities, we assessed that the borrowers did not exhibit any possible default risk that may affect the repayment abilities. We also tested the appropriateness and accuracy of the inputs to those models, such as probability of default and loss given default rates, and where available, compared data and assumptions made to external benchmarks. Finally, we understood and tested the controls over related disclosures.</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 MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

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

İstanbul, 6 June 2018

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL

POSITION AS AT DECEMBER 31, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

	Notes	December 31, 2017	December 31, 2016
Assets			
Cash and balances with the Central Bank	4	1,857,063	1,875,863
Balances with other banks and financial institutions	4	4,951,453	5,979,425
Reserve deposits at the Central Bank	5	6,474,434	5,678,251
Financial assets – held for trading	6	88,624	166,762
<i>Derivative financial instruments</i>	20	26,699	110,049
<i>Share Certificates</i>	6	390	390
<i>Sukuk held for trading</i>	6	61,535	56,323
Financial assets – available-for-sale	6	4,428,672	3,751,680
Due from financing activities, net	7	34,997,542	27,087,876
Minimum finance lease payments receivable, net	8	1,929,863	1,545,637
Precious Metals		693,239	802,280
Construction projects, net	10	76,234	77,939
Joint venture		19,699	15,236
Investment properties, net	11	84,992	26,129
Property and equipment, net	13	430,177	426,867
Intangible assets, net	14	169,802	140,467
Deferred tax assets	17	127,072	110,410
Other assets	9	938,061	700,487
		57,266,927	48,385,309
Assets and a disposal group held for sale	12	53,199	42,667
Total assets		57,320,126	48,427,976
Liabilities and equity			
Due to other financial institutions and banks	15	3,387,127	3,273,326
Sukuk securities issued	15	5,651,841	4,763,981
Subordinated loans	15	1,360,338	1,981,646
Money market balances		750,524	1,219,873
Current and profit / loss sharing investors' accounts	16	40,354,741	32,016,053
Derivative financial instruments	20	151,493	257,556
Employee benefit obligations	18	177,829	122,508
Income taxes payable	17	56,271	27,851
Other liabilities and provisions	19	506,615	525,323
Total liabilities		52,396,779	44,188,117
Share capital	21	3,097,322	2,787,322
Share premium		22,841	22,933
Available for sale investments reserve, net of tax		(10,583)	(35,279)
Employee termination benefits reserve, net of tax		(26,947)	(13,753)
Legal reserves and retained earnings	22	1,838,947	1,443,117
Currency translation differences		79,618	126,484
Hedging fund		(60,854)	(70,863)
Other reserve	22	(24,763)	(22,162)
Non-controlling interest		7,766	2,060
Total equity attributable to equity holders of the parent		4,923,347	4,239,859
Total liabilities and equity		57,320,126	48,427,976

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, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

	Notes	2017	2016
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		1,675,258	1,272,621
Profit on originated loans from current accounts and equity		1,535,513	1,350,757
Profit on deposits with other banks and financial institutions		87,447	42,866
Profit on finance leases		135,232	105,511
Profit on Sukuk investments		280,500	199,949
Total income from financing activities		3,713,950	2,971,704
Profit shares distributed to participation accounts		(1,204,485)	(943,006)
Profit shares distributed to other banks and financial institutions		(554,850)	(555,155)
Net financing income		1,954,615	1,473,543
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	(756,644)	(574,792)
Net financing income after provision for impairment in due from financing activities and lease receivables		1,197,971	898,751
Foreign exchange gain, net		179,845	196,215
Net financing income after net foreign exchange gain / (loss)		1,377,816	1,094,966
Fees and commission income	25	559,589	477,345
Net trading income		206,736	162,970
Other income		145,442	191,077
Share of a joint venture income		5,860	1,938
Total other operating income		917,627	833,330
Fees and commission expense	25	(174,571)	(141,509)
Staff costs	26	(712,884)	(625,109)
Depreciation and amortization expense		(86,351)	(82,160)
Withholdings and other taxes		(8,616)	(47,337)
Rent expense		(115,127)	(101,352)
Other expenses	27	(294,250)	(234,868)
Share of (loss) of a joint venture		-	-
Total other operating expense		(1,391,619)	(1,232,335)
Income before taxation		903,824	695,961
Current tax charge	17	(197,600)	(124,960)
Deferred tax (charge)/credit	17	9,604	(6,277)
Net income for the year		715,828	564,724
Attributable to:			
- Owners of the equity		710,122	563,984
- Non-controlling interests		5,706	740
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of the foreign subsidiary		(36,857)	17,320
Available-for-sale investments reserve		24,696	(40,673)
-Net change in fair value		30,870	(50,841)
-Deferred tax relating to component of other comprehensive income		(6,174)	10,168
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve		(13,194)	1,163
-Net change in fair value		(16,492)	1,454
-Deferred tax relating to component of other comprehensive income		3,298	(291)
Other comprehensive income for the year		(25,355)	(22,190)
Total comprehensive income for the year		690,473	542,534
Attributable to:			
- Owners of the equity		684,767	541,794
- Non-controlling interests		5,706	740
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	0.235	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, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	Available- for-sale investments reserve	Employee termination benefits reserve	Currency Translation Differences	Hedging Funds	Controlling Interest	Total
Balances at January 1, 2016	2,527,322	22,933	100,287	1,042,245	(22,162)	5,394	(14,916)	70,961	(32,660)	1,320	3,700,724
Share capital increase	260,000	-	-	(260,000)	-	-	-	-	-	-	-
from retained earnings	260,000	-	-	(260,000)	-	-	-	-	-	-	-
cash injection	-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	22,574	(22,574)	-	-	-	-	-	-	-
Hedging funds	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	(3,399)	-	-	-	-	-	-	(3,399)
Total comprehensive income for the year	-	-	-	563,984	-	(40,673)	1,163	55,523	(38,203)	740	542,534
Other	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2016	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	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	-	-	-	(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)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2017	3,097,322	22,841	150,389	1,694,264	(24,763)	(10,583)	(26,947)	79,618	(60,854)	7,766	4,923,347

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

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

	Notes	2017	2016
Cash flows from operating activities:			
Income from continuing operations before taxation		903,824	695,961
Share of (profit) / loss of a joint venture		(5,860)	(1,938)
Depreciation and amortization	11, 13, 14	72,845	82,160
Provision for employee termination and other benefits	18	29,747	16,417
Provision for personnel bonus accrual	18	69,670	55,290
Provision for impairment in due from financing activities and lease receivables	7, 8	756,644	574,792
Income accrual of funds invested		148,126	(62,727)
Reversal of impairment in investment property	10	31,042	51
Deferred income		(67,264)	(37,806)
Impact of exchange difference on cash at banks and loans		(199,180)	(177,535)
Expense accrual of participation accounts		17,113	4,883
Expense and foreign exchange accrual of funds borrowed		(124)	39,184
Other provision		67,072	43,324
Net change in derivative financial instruments		(22,713)	21,940
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		(18,580)	(12,469)
Operating income before changes in operating assets and liabilities		1,782,362	1,241,527
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(796,183)	(536,956)
Due from financing activities		(9,416,332)	(2,904,393)
Minimum finance lease payments receivables		(384,226)	(371,399)
Other assets and construction projects		(262,307)	(202,899)
Current accounts and profit/loss sharing investors' accounts		8,263,561	3,809,798
Other liabilities		(461,610)	(59,188)
Payment for employee termination benefits	18	(5,297)	(7,881)
Payment for personnel bonuses	18	(55,290)	(49,677)
Precious metals		109,041	(330,577)
Income taxes paid		(170,987)	(140,600)
Net cash used in operating activities		(1,397,268)	447,755
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(6,960,727)	(2,622,563)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	6,284,366	1,200,228
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(189,395)	(106,552)
Proceeds from sale of property and equipment, intangible assets and investment properties		88,482	34,728
Proceeds from sale of asset and liabilities held for sale		13,439	(15,335)
Net cash used in investing activities		(763,835)	(1,509,494)
Cash flows from financing activities:			
Dividends paid	21	(4,291)	(3,399)
Increase / (decrease) in due to financial institutions and banks		(507,383)	344,772
Sukuk securities issued		3,085,860	2,329,600
Sukuk securities redeemed		(1,790,002)	(673,768)
Net cash provided by financing activities		784,184	1,997,205
Net increase in cash and cash equivalents		(1,376,919)	935,466
Net foreign exchange difference on cash and cash equivalents		(16,607)	140,046
Cash and cash equivalents at the beginning of the year	4	7,640,555	6,565,043
Cash and cash equivalents at the end of the year	4	6,247,029	7,640,555

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, 2017

(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 June 6, 2018. 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., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), 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 31 July 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 17 December 2013 by İstanbul Register of Commerce.

KT Portföy Yönetim Anonim Şirketi ("Company"), which is 100% owned by the bank was established in 26 May 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 1 December 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, 2017

(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 available-for-sale investments.

The consolidated financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

New and Revised International Financial Reporting Standards

a) Amendments to IFRSs that are mandatorily effective for the current year

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses ¹
Amendments to IAS 7	Disclosure Initiative ¹
Annual Improvements to IFRS Standards 2014–2016 Cycle	IFRS 12 ¹

¹ Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Amendments to IAS 7 Disclosure Initiative

This amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

Annual Improvements to IFRS Standards 2014–2016 Cycle

IFRS 12: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

b) New and revised IFRSs in issue but not yet effective:

IFRS 9	<i>Financial Instruments</i> ¹
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
IFRS 16	<i>Leases</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ¹
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
Amendments to IAS 40	<i>Transfers of Investment Property</i> ¹
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1¹, IAS 28¹</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ²
IFRS 17	<i>Insurance Contracts</i> ³
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ²
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ²
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>IFRS 3 and IFRS 11, IAS 12, IAS 232</i>

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after 1 January 2021.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

Key requirements of IFRS 9:

- 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 interest 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 (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the analysis carried out, the Group considers that the new measurement and classification requirements under IFRS 9 did not have a significant impact on the total equity of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance:

The Group recognizes revenue from the following major sources:

- Sale of leisure goods and electronic equipment, including the related loyalty programme 'Maxi-Points Scheme' as disclosed in Note N, servicing fees included in the price of products sold, as well as warranties granted under local legislation as disclosed in Note O;
- Installation of computer software for specialized business applications; and
- Construction of residential properties.

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The directors of the Company have preliminarily assessed that the Maxi-Points Scheme and the after-sale services represent two separate performance obligations from the sale of the leisure goods and electronic equipment and accordingly, revenue will be recognized for each of these performance obligations when control over the corresponding goods and services is transferred to the customer. This is similar to the current identification of separate revenue components under IAS 18. Furthermore, even though IFRS 15 requires the transaction price to be allocated to the different performance obligations on a relative stand-alone selling price basis, the directors do not expect that the allocation of revenue to the Maxi-Points, the after-sale services and the leisure goods and electronic equipment sold will be significantly different from that currently determined. The timing of revenue recognition of each of these three performance obligations (i.e. upon redemption of the Maxi-Points taking breakage into account, at a point in time for sale of goods when the goods are delivered to the customer, and over the period the after-sale services are performed) are also expected to be consistent with current practice.

The sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group will continue to account for the warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current accounting treatment.

As regards the construction of residential properties, the directors have specifically considered IFRS 15's guidance on contract combinations, contract modifications arising from variation orders, variable consideration, and the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of goods and services to the customer and the timing of the related payments. The directors have assessed that revenue from these construction contracts should be recognized over time as the customer controls the properties during the course of construction by the Group. Furthermore, the directors consider that the input method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under IFRS 15.

As regards the installation of software services, the directors have assessed that these performance obligations are satisfied over time and that the method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under IFRS 15.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28 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. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognized an asset and a related finance lease liability for the lease arrangement, and in cases where the Group is a lessor (for both operating and finance leases), the directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. 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.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - i. the original liability is derecognised;
 - ii. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - iii. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

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The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements. This is because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

Annual Improvements to IFRS Standards 2014–2016 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below. The package also includes amendments to IFRS 12 Disclosure of Interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2017 (see section 1A above for details).

- **IFRS 1:** The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
- **IAS 28:** The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments apply retrospectively with earlier application permitted.

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 17 Insurance Contracts

This new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

IFRIC 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. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

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Amendments to IFRS 9 Prepayment Features with Negative Compensation

This amendment amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Annual Improvements to IFRS Standards 2015–2017 Cycle

- **IFRS 3** and **IFRS 11** - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12** - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- **IAS 23** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

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, 2017 and 2016 are derived by indexing the additions that occurred until December 31, 2005 and carrying the additions after this date with their nominal amounts.

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Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2017 and 2016 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, 2017 and 2016, 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.

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, 2017	December 31, 2016
"Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."	Turkey	91.89%	97.61%
"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 Portföy Yönetimi A.Ş."	Turkey	100%	100%
"KT Bank AG."	Germany	100%	100%
"Architech Bilgi Sistemleri ve Pazarlama Tic. A.Ş."	Turkey	100%	100%

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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 31 December 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, 2016	3.52	3.71
December 31, 2017	3.78	4.53

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 4.119 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

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.

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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.

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.

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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.

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.

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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.

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.

Embedded derivatives

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In business combinations from 1 January 2010, if the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date through profit or loss. Furthermore any acquisition costs incurred are expensed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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.

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Impairment of financial assets

a) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
 - (i) adverse changes in the payment status of borrowers; or
 - (ii) national or local economic conditions that correlate with defaults on the assets of the Group.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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.

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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.

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.

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&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.

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.

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(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

Leases

The group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

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.

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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 66% - 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.

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.

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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.

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 (2016: 20%).

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.

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Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Reclassifications

None.

3. Segment reporting

For management purposes, the Group is organized into six business segments:

Retail Banking – Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits under TL 1.25 million and loans that are less than TL 750,000 (full amount) and all foreign nationals' loans that are less than TL 500,000 (full amount).

Private Banking – Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits more than TL 1.25 million and loans that are more than TL 750,000 (full amount) and all foreign nationals' loans that are more than TL 500,000 (full amount).

Small Business Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. Segment portfolio comprised of all businesses that have annual sales turnover between TL 3 million - TL 30 million and their individual owners.

Commercial Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. Segment portfolio comprised of all businesses that have annual sales turnover more than TL 30 million and their individual owners except customer of corporate branches.

Corporate Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for all corporate customers. Segment portfolio comprised of all businesses in corporate branches.

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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, 2017 and 2016, respectively.

For the period ended December 31, 2017	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Treasury, International & Investment Banking		Segments Total	Reconciliation	Notes	Grand 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	(a, b)	(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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For the period ended December 31, 2016	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Tresury, International & Investment Banking	Segments Total	Reconciliation	Notes	Grand Total
Income from financing activities & sukuk	477,002	1,093,675	608,130	421,711	371,186	2,971,704	-	-	2,971,704
Intersegment income	845,028	(409,363)	(363,542)	(281,137)	209,014	-	-	-	-
Total financing income	1,322,030	684,312	244,588	140,574	580,200	2,971,704	-	-	2,971,704
Profit shares distributed	(719,165)	(159,483)	(32,186)	(24,038)	(566,574)	(1,501,446)	3,285	(a, b)	(1,498,161)
Credit loss expense	(20,010)	(200,616)	(284,810)	(75,138)	-	(580,574)	5,782	-	(574,792)
Net financing income	582,854	324,213	(72,408)	41,398	13,626	889,684	9,067	-	898,751
Foreign exchange gain/loss, net	37,833	51,896	23,541	15,206	992	129,468	66,747	(b)	196,215
Net trading income	-	-	-	-	162,970	162,970	-	-	162,970
Net fees & commission and other income	145,843	199,517	79,641	102,789	1,636	529,426	(575)	(b)	528,851
Other expenses / income (net)	(382,514)	(351,822)	(206,998)	(75,585)	(40,637)	(1,057,556)	(33,270)	(a, b)	(1,090,826)
Segment profit / (loss)	384,017	223,804	(176,224)	83,808	138,587	653,992	41,969	-	695,961
Tax expenses	-	-	-	-	-	-	(131,237)	(c)	(131,237)
Net profit / (loss) for the year	384,017	223,804	(176,224)	83,808	138,587	653,992	(89,268)	-	564,724
Segment Assets	6,452,954	12,097,769	8,201,624	5,445,802	16,229,827	48,427,976	-	-	48,427,976
Segment Liabilities & Equity	20,927,595	8,170,790	2,097,615	2,212,034	10,779,571	44,187,604	4,240,372	(d)	48,427,976

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, 2017	December 31, 2016
Cash on hand	1,602,840	1,615,907
Balances with the Central Bank of Turkey	254,223	259,956
Cash and balances with the Central Bank of Turkey	1,857,063	1,875,863
Balances with banks and other financial institutions	4,951,453	5,979,425
Sub Total	6,808,516	7,855,288
Deposit with maturity more than three months	(211,564)	(119,142)
Less: Interbank gold deposits	(349,923)	(95,591)
Total	6,247,029	7,640,555

As of December 31, 2017 and 2016, “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:

	2017				2016			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	-	1,269,080	-	0.49%	-	1,383,293	-	0.71%
Total		1,269,080				1,383,293		

5. Reserve deposits at the Central Bank of Turkey

	2017		2016	
	Foreign currency (full)	TL	Foreign currency (full)	TL
USD	1,146,176,997	4,330,165	1,115,882,587	3,927,014
EUR	110,396,631	499,696	100,000,000	370,990
XAU (Standard Gold)	10,137,961	1,644,573	10,499,864	1,380,247
		6,474,434		5,678,251

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 4% and 10.5% for TL deposits and other liabilities according to their maturities as of 31 December 2017 (31 December 2016: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 24% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2017 (31 December 2016: 4% and 24% for all foreign currency liabilities).

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6. Financial assets

Available-for-sale

	2017	2016
Financial Sukuk	4,254,312	3,653,310
Unlisted Shares	17,084	16,594
Fund	157,276	81,776
Total available-for-sale financial assets	4,428,672	3,751,680

The breakdown of unlisted shares is as follows:

		2017		2016	
	Nature of business	Ownership%	Amount	Ownership%	Amount
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	1.69	4,719	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	-	7,149	-	6,659
			17,084		16,594

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market price for these investments.

Information on financial assets available-for-sale:

The details of the Rent Certificates which are in Bank's Portfolio "Financial Assets Available for-Sale" are presented below as of 31 December 2017.

a) In addition; the Bank included rent certificates which are presented below and these amounts are classified under "Government debt securities" at the accompanying financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE (%)
TRD140721T18	TL	Semi-annually	T.C. HAZİNE	20/07/2016	14/07/2021	3,176	9.40
TRD140218T18	TL	Semi-annually	T.C. HAZİNE	17/02/2016	14/02/2018	21,435	10.64
TRD220921T16	TL	Semi-annually	T.C. HAZİNE	28/09/2016	22/09/2021	176,340	2.24
TRD260918T17	TL	Semi-annually	T.C. HAZİNE	28/09/2016	26/09/2018	17,317	8.80
TRD211118T18	TL	Semi-annually	T.C. HAZİNE	23/11/2016	21/11/2018	980	2.80
TRD130219T18	TL	Semi-annually	T.C. HAZİNE	15/02/2017	13/02/2019	22,391	11.04
TRD190619T18	TL	Semi-annually	T.C. HAZİNE	21/06/2017	19/06/2019	172,675	10.72
TRD100822T10	TL	Semi-annually	T.C. HAZİNE	16/08/2017	10/08/2022	24,540	10.76
TRD121022T14	TL	Semi-annually	T.C. HAZİNE	18/10/2017	12/10/2022	97,180	2.80
XS0831353361	USD	Semi-annually	REPUBLIC OF TURKEY	26/09/2012	26/03/2018	61,633	2.80
XS1586385178	USD	Semi-annually	REPUBLIC OF TURKEY	06/04/2017	06/04/2023	9,651	5.00
XS1141043296	USD	Semi-annually	REPUBLIC OF TURKEY	25/11/2014	25/11/2024	31,610	4.48
XS0975124180	USD	Semi-annually	REPUBLIC OF TURKEY	26/04/2016	10/10/2018	41,174	4.56
XS1303467077	USD	Semi-annually	REPUBLIC OF TURKEY	08/06/2016	08/06/2021	42,342	4.26

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b) The Bank purchased the rent certificates ("sukuk") as details given table below from private entities that are stated under "Other Securities" in given financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE (%)
TRDKTVK31810	TL	Quarterly	KT KİRA SERTİFİKALARI V.K.Ş.	22/11/2017	16/03/2018	2,580	16.16
TRDKTVK31828	TL	Quarterly	KT KİRA SERTİFİKALARI V.K.Ş.	19/12/2017	16/03/2018	6,570	11.64
TRDKTVK11812	TL	Quarterly	KT KİRA SERTİFİKALARI V.K.Ş.	19/09/2017	03/01/2018	20,101	13.92
TRDKTVK11820	TL	Quarterly	KT KİRA SERTİFİKALARI V.K.Ş.	06/10/2007	17/01/2018	51	13.64
TRDKTVK21811	TL	Quarterly	KT KİRA SERTİFİKALARI V.K.Ş.	22/11/2017	06/02/2018	324	11.92
XS1505149325	USD	Semi-annually	KT KİRA SERTİFİKALARI V.K.Ş.	21/12/2017	02/11/2021	7,780	5.14
US71567RAD89	USD	Semi-annually	REPUBLIC OF INDONESIA	12/10/2017	28/05/2025	3,950	4.32
XS1082151868	USD	Semi-annually	ALBARAKA TURK	30/06/2014	30/06/2019	16,623	6.26
XS0922143382	USD	Semi-annually	TÜRKİYE FİNANS K.B.A.Ş.	02/05/2013	02/05/2018	126,255	3.96
XS1057852912	USD	Semi-annually	TÜRKİYE FİNANS K.B.A.Ş.	24/04/2014	24/04/2019	27,654	3.96
XS1241110300	USD	Semi-annually	DİB	03/06/2015	03/06/2020	7,563	0.58
XS1696457289	USD	Quarterly	IILM	10/10/2017	23/01/2018	56,669	1.88

Held for trading

Financial assets held for trading includes sukuk and share certificates. Balance of Financial assets held for trading is as below:

	2017	2016
Sukuk	61,535	56,323
Share Certificates	390	390
	61,925	56,713

The movement in financial assets excluding derivatives may be summarized as follows:

Financial investments	Current Period		Previous Period	
	Available for sale	Held for trading	Available for sale	Held for trading
At the beginning of the year	3,751,680	56,713	2,354,196	45,214
Additions	4,893,546	2,067,181	2,565,115	57,448
Disposals (sale and redemption)	(4,226,156)	(2,058,210)	(1,155,714)	(44,514)
Change in fair value	9,602	(3,759)	(11,917)	(1,435)
Balance at the end of the year	4,428,672	61,925	3,751,680	56,713

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

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Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as of December 31, 2017 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	61,535	26,699	-	88,234
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
Previous Period				
Financial assets				
Financial assets held for trading	56,323	110,049	-	166,372
Forward transactions	-	22,304	-	22,304
Swap transactions	-	87,745	-	87,745
Sukuk held for trading	56,323	-	-	56,323
Available-for-sale financial assets	3,653,310	-	-	3,653,310
Equity securities	-	-	-	-
Government debt securities	2,944,445	-	-	2,944,445
Other marketable securities	708,865	-	-	708,865
Financial liabilities				
Financial liabilities held for trading	-	257,556	-	257,556
Forward transactions	-	16,753	-	16,753
Swap transactions	-	240,803	-	240,803

7. Due from financing activities, net

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
December 31, 2016					
Neither past due nor impaired	21,405,083	572,106	319,624	4,705,722	27,002,535
Past due not impaired	1,373,487	12,331	8,198	144,022	1,538,038
Impaired	758,831	11,440	13,144	16,292	799,707
Total gross loans	23,537,401	595,877	340,966	4,866,036	29,340,280
Less: Allowance for impairment on loans	(665,472)	(11,463)	(14,613)	(15,219)	(706,767)
Net loans ^(*)	22,871,929	584,414	326,353	4,850,817	28,633,513

^(*) Also includes minimum finance lease payment receivables.

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	2017	2016
Performing		
Funds invested from profit/loss sharing accounts	17,562,109	12,599,038
Funds invested from current accounts and equity	16,103,803	12,903,729
Income accruals on due from financing activities ^(*)	1,333,917	1,493,263
	34,999,829	26,996,030
Funds in arrears		
Funds invested from profit / loss sharing accounts	305,616	386,043
Funds invested from current accounts and equity	507,327	400,444
	812,943	786,487
Total	35,812,772	27,782,517
Impairment allowance		
Funds invested from profit / loss sharing accounts	288,504	268,886
Funds invested from current accounts and equity	526,726	425,755
	815,230	694,641
Total due from financing activities	34,997,542	27,087,876

^(*) Also includes foreign currency evaluation differences of foreign currency indexed loans.

Movement in impairment allowance for funds disbursed is as follows:

	December 31, 2017	December 31, 2016
Balance at January 1,	694,641	390,279
Charge for the period	698,630	683,792
Charges for the bank	490,145	529,210
Charge for the participation accounts	208,485	154,582
Recoveries of amounts previously provided for	(116,688)	(230,037)
Reserves written off in current year	(461,353)	(149,393)
Balance at the end of the year	815,230	694,641

The impairment allowance of TL 815,230 (December 31, 2016 – TL 694,641) is made up of a specific and collective allowance. The movements in the collective and specific allowances are analyzed below.

The movements in the collective allowance for financing activities are as follows:

	2017	2016
Balance at beginning of year	162,924	111,456
Provisions - bank	65,033	32,839
Provisions - participation accounts	55,647	18,629
Allowance at the end of the year	283,604	162,924

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The movement in specific allowance is as follows:

	2017	2016
Balance at the beginning of the year	531,717	278,823
Provisions - bank	425,112	496,371
Provisions - participation accounts	152,838	135,953
Recoveries of amounts previously provided for	(116,688)	(230,037)
Reserves written off in current year	(461,353)	(149,393)
Balance at the end of the year	531,626	531,717

8. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2017	2016
Gross investment in finance leases	2,244,253	1,745,190
Unearned finance income	(315,010)	(200,647)
Total impaired receivables	5,040	13,220
Impairment allowance	(4,420)	(12,126)
Minimum lease payments receivable, net	1,929,863	1,545,637

Movements in the impairment allowance for leasing receivables is as follows:

	2017	2016
Balance at January 1	12,126	2,940
Charge for the period	16,237	11,951
Charges for the bank	15,654	11,400
Charge for the participation accounts	583	551
Recoveries of amounts previously provided for	(11,007)	(1,296)
Impairment allowance written off in current period	(12,936)	(1,469)
Balance at the end of the period	4,420	12,126

Gross investment in finance leases as to their maturity:

	2017	2016
Not later than 1 year	1,499,972	1,119,851
Later than 1 year and not later than 5 years	565,336	493,529
Later than 5 years	178,945	131,810
Non-performing receivables	5,040	13,220
Minimum lease payments receivable, gross	2,249,293	1,758,410
Less : Unearned finance income	(315,010)	(200,647)
Net investment in finance leases	1,934,283	1,557,763
Less : Allowance for impairment	(4,420)	(12,126)
Minimum lease payments receivable, net	1,929,863	1,545,637

As of December 31, 2017 TL 1,343,269 (December 31, 2016 - TL 1,188,060) gross lease receivables are denominated in foreign currency (USD and EUR).

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Net investment in finance leases as to their maturity:

	2017	2016
Less than 1 year ^(*)	1,223,929	958,746
1 - 5 year	537,865	475,036
More than 5 years	172,489	123,981
Net investment in finance leases	1,934,283	1,557,763

^(*) Includes total impaired receivables amounting to TL 5,040 (December 31, 2016 – TL 13,220).

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:

	2017	2016
Clearing accounts	99,553	192,677
Prepaid expenses	61,076	42,055
Blockage for letter of guarantee	571,787	420,596
Receivables from banking operations	8,081	7,623
Value added tax (VAT) receivable	23,437	725
Other receivables from finance activities	153,758	4,762
Other	20,369	32,049
	938,061	700,487

^(*) KT Sukuk Varlık Kiralama A.Ş. has issued a lease certificate (TRDKTSK61912 ISIN code) on behalf of Derindere Turizm Otomotiv San. Tic. A.Ş., with a nominal value amounting to TL 50,000,000, with a term of 728-days, with interim profit share payments in every 3 months, with an annual return of 14.8335% and with a periodic return of 3.6982% and a lease certificate (TRDKTSK21617 ISIN code) on behalf of Toprak Mahsulleri Ofisi A.Ş. (TMO), with a nominal value amounting to TL 100,000,000, with a term of 88-days, with an annual return of 12.95%, with a periodic return of 3.12219% and with the principal and coupon payment due on 23 February 2018.

10. Construction projects, net

Construction projects mainly include the Dumankaya Project (time sharing houses) which belong to the subsidiary of the Bank, Körfez GYO.

	2017	2016
Uncompleted construction projects	27,612	21,499
Kartal Project		
Cost of land	-	19,886
Cost of project	25,999	-
Kilyos Land		
Cost of land	1,613	1,613
Güre Tesisi	79,664	56,440
Completed construction projects (inventories)	79,664	56,440
	107,276	77,939
(Less) Impairment provision for net realizable value	(31,042)	-
Total construction projects, net	76,234	77,939

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11. Investment properties, net

	2017	2016
Balance at the beginning of the year	26,129	33,807
Additions	30,947	858
Disposal	(8,829)	(7,471)
Depreciation charge	(158)	(1,014)
Transfer from assets held for resale (Note 12)	36,903	-
Reversal / (charge) of provisions for investment property	-	(51)
Balance at the end of the year	84,992	26,129
Cost	88,548	29,464
Accumulated depreciation	(3,502)	(2,809)
Accumulated impairment	(54)	(526)
Net carrying amount	84,992	26,129

Fair value of the investment properties is TL 118,849 (December 31, 2016 - TL 46,093) which is determined based on the valuations performed by independent qualified values on December 2017.

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, 2017, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 60,874 (December 31, 2016 - TL 15,535), 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:

	2017	2016
Balance at the beginning of the year	42,667	27,332
Additions	60,874	15,335
Transfer to investment property (Note 11)	(36,903)	-
Disposals	(13,439)	-
Balance at the end of the year	53,199	42,667

Gain on sale of assets held for sale amounting to TL 27,776 is included in other income in the comprehensive income statement (December 31, 2016 - TL 5,380).

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13. Property and equipment, net

	Land and buildings	Furniture and office equipment ^(*)	Leasehold improvements	Motor vehicles	Total
At January 1, 2016	235,640	147,914	46,615	259	430,428
Cost					
Additions ^(*)	571	43,226	13,279	50	57,126
Disposals	(325)	(4,729)	(1,200)	(120)	(6,374)
Depreciation charge for the year	(6,590)	(36,730)	(10,962)	(31)	(54,313)
At December 31, 2016, net of accumulated depreciation and impairment	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

^(*) TL 7,957 and TL 7,694 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2017 and 2016, 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, 2016					
Cost	254,048	274,768	88,189	795	617,800
Accumulated depreciation	(24,752)	(125,087)	(40,457)	(637)	(190,933)
Net carrying amount	229,296	149,681	47,732	158	426,867
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

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14. Intangible assets, net

	Internally Generated Software	Other Software	Total
At January 1, 2016	82,114	37,338	119,452
Additions	47,704	8,559	56,263
Disposals	(8,414)	-	(8,414)
Amortization charge for the year	(16,795)	(10,039)	(26,834)
At December 31, 2016, net of accumulated amortization	104,608	35,859	140,467
Additions	52,569	18,535	71,104
Disposals	(16,715)	-	(16,715)
Amortization charge for the year	(11,298)	(13,756)	(25,054)
At December 31, 2017, net of accumulated amortization	129,165	40,637	169,802
At December 31, 2016			
Cost (gross carrying amount)	127,084	72,337	199,421
Accumulated amortization	(22,476)	(36,478)	(58,954)
Net carrying amount	104,608	35,859	140,467
At December 31, 2017			
Cost (gross carrying amount)	201,398	80,360	281,758
Accumulated amortization	(72,233)	(39,723)	(111,956)
Net carrying amount	129,165	40,637	169,802

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, 2017 and 2016 is as follows;

Original currency	Amount in TL	
	2017	2016
USD	2,959,839	3,118,503
Euro	215,713	95,477
TL	109,974	59,346
Other	101,601	-
Total	3,387,127	3,273,326

As of December 31, 2017 borrowings remaining maturities of which is less than 12 months amount to TL 3,163,905 (As of December 31, 2016 – TL 3,116,471).

As of 31.12.2017 Bank has no syndicated loans. As of 31.12.2016 the Bank had a syndicated loan, with a maturity of 31.03.2017 amounting to USD 200 million with a profit share rate of 5.50% paid in two equal installments on March 30 and September 30 each year.

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Sukuk securities as of December 31, 2017 and 2016 is as follows;

	Amount in TL	
	2017	2016
Sukuk certificates issued USD	3,795,719	3,536,069
Sukuk certificates issued TL	1,096,838	588,915
Sukuk certificates issued MYR	759,284	638,997
Total	5,651,841	4,763,981

Subordinated loans as of December 31, 2017 and 2016 is as follows;

	Amount in TL	
	2017	2016
Subordinated loan provided by Kuwait Finance House	-	713,881
Subordinated loan provided by other foreign banks ⁽¹⁾	1,360,338	1,267,765
Total	1,360,338	1,981,646

⁽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 17 February 2016. Annual rate of return for the loan that is included in contributonal capital calculation in accordance with the BRSA Letter of Conformity dated 2 September 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 17 July and 17 February each year.

16. Current and profit / loss sharing investors' accounts

	2017	2016
Current accounts:		
Turkish lira	6,986,424	5,946,657
Foreign currency	9,311,336	6,047,823
	16,297,760	11,994,480
Profit/loss sharing investors' accounts:		
Turkish lira	12,971,587	11,948,950
Foreign currency	10,971,569	7,969,594
	23,943,156	19,918,544
Blocked accounts:		
Turkish lira	23,558	28,152
Foreign currency	3,660	5,383
	27,218	33,535
Total current accounts and profit/loss investors' accounts	40,268,134	31,946,559
Expense accrual on current accounts and profit/loss sharing investors' accounts	86,607	69,494
Total current accounts and profit/loss sharing investors' accounts	40,354,741	32,016,053

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Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	Current Period			Previous Period		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	11,317,810	12,454,993	23,772,803	9,735,304	8,111,472	17,846,776
From 1 month to 3 months	7,254,309	5,990,876	13,245,185	6,979,753	4,376,237	11,355,990
From 3 months to 1 year	1,004,647	1,627,293	2,631,940	872,522	1,333,651	2,206,173
Over one year	404,803	213,403	618,206	336,180	201,440	537,620
	19,981,569	20,286,565	40,268,134	17,923,759	14,022,800	31,946,559

At December 31, 2017 and 2016, 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	1,584,904,657	5,987,643	1,003,796,742	3,532,561
Euro	373,591,909	1,691,015	296,023,858	1,098,219
Precious metals		1,478,276		1,299,314
Other		158,062		123,112
		9,314,996		6,053,206
Profit/loss sharing investors' accounts:				
USD	1,782,054,678	6,732,460	1,407,280,348	4,952,502
Euro	617,458,803	2,794,847	532,867,490	1,976,884
Precious metals		1,444,262		1,040,208
		10,971,569		7,969,594
		20,286,565		14,022,800

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 20% on the statutory corporate income tax base for the year ended December 31, 2017. This rate was 20% for the year ended December 31, 2016 as well. 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 2017 is 20%. (2016: 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 will be 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.

The details of income tax expense are as follows;

	2017	2016
Current tax expense	199,407	124,838
Prepaid tax (-)	(143,136)	(96,987)
Income taxes payable	56,271	27,851
	2017	2016
Current tax expense	197,600	124,960
Deferred tax (credit)/charge	(9,604)	6,277
Total income tax charge/(credit)	187,996	131,237

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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, 2017 and 2016 is as follows:

	2017	2016
Profit before income tax from continuing operations	903,824	695,961
At Turkish statutory income tax rate of 20%	180,765	139,192
Effect of income not subject to tax	(5,605)	(13,717)
Effect of expenditure not allowable for income tax purposes	12,836	5,762
Income tax charge	187,996	131,237

Deferred tax as of December 31, 2017 and 2016 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2017	2016
Deferred income	46,597	29,683
Derivative accrual	26,181	27,731
Provision for impairment in due from financing activities	8,543	8,728
Impairment provision for subsidiaries, fixed assets and assets held for sale	36,436	36,641
Bonus accrual of personnel	22,244	14,755
Deferred tax accounted under shareholders' equity	12,489	12,841
Reserve for employee termination benefits	10,495	7,858
Effect of precious metals valuation	2,803	-
Deferred tax assets	165,788	138,237
Provision for non cash loans and check commitments	(19,592)	(15,874)
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(10,044)	(7,754)
Available for sale valuation differences	(3,556)	(220)
Effect of precious metals valuation	(652)	(3,131)
Effect of other temporary differences	(4,872)	(848)
Deferred tax liabilities	(38,716)	(27,827)
Deferred tax asset – net	127,072	110,410

Movement of net deferred tax asset is as follows:

	2017	2016
Balance at the beginning of the year	110,410	98,469
Deferred tax (charge)/credit recognized in income statement	9,604	(6,277)
Deferred tax (charge)/credit recognized in equity	7,058	18,218
Balance at the end of the year	127,072	110,410

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18. Employee benefit obligations

	2017	2016
Personnel bonus accrual	69,670	55,290
Employee termination benefits	108,159	67,218
Total employee benefit obligations	177,829	122,508

The movement in reserve for personnel bonus accrual is as follows:

	2017	2016
Balance at January 1	55,290	49,677
Utilized/paid	(55,290)	(49,677)
Charge for the year	69,670	55,290
Balance at the end of the year	69,670	55,290

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

	2017	2016
Balance at January 1	67,218	57,228
Utilized/paid	(5,297)	(7,881)
Service cost	21,936	10,659
Interest cost	7,811	5,758
Actuarial loss ^(*)	16,492	1,454
Balance at the end of the year	108,159	67,218

^(*) Retirement pay liability arising from current period and amounting TL 16,492 (2016: TL 1,454) is an actuarial loss amount and deferred tax amounting to TL 3,298 (2016: TL 291) related with the retirement pay liability is accounted under statement of other comprehensive income.

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis 30 days' pay (limited to a maximum of TL 3.1 and TL 3.1 at December 31, 2017 and 2016, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2017 and 2016, 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 4,732 (2016: TL 4,297) for each period of service at 31 December 2017.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is rearranged every six months, is calculated over TL 5,001.76 that is effective commencing on January 1, 2018 (January 1, 2017: TL 4,426.16)

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The following actuarial assumptions were used in the calculation of the total liability:

	2017	2016
Discount rate (%)	2.5	3.4
Expected salary / ceiling increase rate (%)	9.9	8.8
Anticipated turnover rate (%)	89	89

19. Other liabilities and provisions

	2017	2016
Clearing accounts	108,082	228,575
Withholding tax and other tax payables	66,518	57,384
Payables to exporters and suppliers	49,721	24,436
Security premium for participation funds	21,779	18,287
Deferred revenue for non cash loans	14,186	11,099
Deductions on resource utilization fund	2,048	1,753
Provision for non-cash loans	124,514	76,375
Other provisions and liabilities	118,808	162,200
Total other liabilities	506,615	525,323

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, 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								
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
December 31, 2016								
	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								
Inflows	110,049	-	9,957,843	7,203,785	671,043	684,691	765,162	633,162
Outflows	-	257,556	10,090,188	7,217,924	698,916	650,932	754,515	767,901

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21. Share capital

	2017	2016
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	3,097 million	2,787 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2017		2016	
	Number	TL	Number	TL
At January 1	2,787,322,000	2,787,322	2,527,322,000	2,527,322
Shares issued in				
- bonus shares from retained earnings	310,000,000	310,000	260,000,000	260,000
- other	-	-	-	-
At year end	3,097,322,000	3,097,322	2,787,322,000	2,787,322

The Bank has increased its share capital on March 28, 2017. The share capital increase was funded from the retained earnings amounting to TL 310,000 (2016 - TL 260,000).

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2017 and 2016, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2017		2016	
	Amount	%	Amount	%
Kuwait Finance House	1,929,479	62.2	1,737,136	62.2
Directorate of Vakıf Foundations, Turkey	580,297	18.7	522,449	18.7
The Public Institution for Social Security, Kuwait	279,000	9	251,187	9
Islamic Development Bank	279,000	9	251,187	9
Other	29,546	1	25,363	1
Total share capital	3,097,322	100	2,787,322	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.

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Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 4,291 (2016 – TL 3,399) from the profit of the year 2017.

	2017	2016
Ordinary shares		
Amount	4,291	3,399
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.

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, 2017 and 2016.

The following reflects the income and per share data used in the basic earnings per share computations:

	2017	2016
Net profit attributable to continuing operations of the Bank for basic earnings per share	710,122	563,984
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	710,122	563,984
Weighted average number of ordinary shares for basic earnings per share (thousands)	3,023,432	2,719,125
Basic earnings per share (expressed in full TL per share)	0.235	0.207

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24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2016 - 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, 2016 - 18.7%), 9.0% (December 31, 2016 - 9.0%) and 9.0% (December 31, 2016 - 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, 2017 and 2016 and transactions have been entered into with related parties during the years ended:

i) Balances with financial institutions and due from financing activities:

		2017		2016	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	Kuwaiti Dinar	93,935	1,176	82,190	941
	XAU (gr.)	144,948	22,808	112,369	14,771
KFH – Bahrain	BHD	35,208	353	21,339	199
	USD	156,675	592	103,219	363
Auto Land A.S.	TL	-	82,973	-	72,473
Kuwait finance Malaysia	USD	508	2	5,063	18
	XAU(gr)	51,973	48	-	-
Other related parties	-	-	69,000	-	63,903
			176,952		152,668

ii) Due to other financial institutions and banks:

		2017		2016	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW ⁽¹⁾	USD	166,499,555	629,022	221,784,496	780,504
Kuwait Finance House ⁽¹⁾	USD	575,914,524	2,175,759	414,976,131	1,460,384
			2,804,781		2,240,888

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iii) Profit/loss sharing investors' and current accounts:

		2017		2016	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	2,858,361	10,799	2,197,081	7,732
Kuwait Finance House ⁽¹⁾	TL	-	1,558	-	1,000
Islamic Development Bank ⁽¹⁾	USD	-	-	5115	18
Kuwait Finance Malaysia	XAU (gr.)	572,547	90,092	724,547	95,245
Kuwait Finance House, Bahrain	USD	1,259	5	1,243	4
Directorate of Vakıf Foundations, Turkey ⁽¹⁾	TL	-	32,923	-	31,793
Neova Sigorta AS ^(*)	TL	-	319,159	-	5,781
	USD	191,138	722	285,111	1,003
	EUR	4,524	20	-	-
Public Institute for Social Securities KW ⁽¹⁾	USD	167,692	634	164,644	579
		455,912		143,155	

^(*) Determined as related party as the Company is under the common control of the ultimate parent.

⁽¹⁾ Shareholders.

iv) Profit shares distributed:

		2017		2016	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	11,203,800	42,327	8,307,994	29,237
Directorate of Vakıf Foundations, Turkey ⁽¹⁾	TL	-	3,029	-	2,670
Neova Sigorta AŞ ^(*)	TL	-	10,967	-	2,607
Public Institute for Social Securities KW ⁽¹⁾	USD	1,684,222	6,363	3,127,430	11,006
		62,686		45,520	

^(*) Determined as related party as the Company is under the common control of the ultimate parent.

⁽¹⁾ Shareholders.

v) Non cash credits issued:

		2017		2016	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	74,800	283	10,378,355	36,524
Kuwait Finance Malaysia	USD	40,000	151	40,000	140
Other related parties	TL	-	1,717	-	575
		2,151		37,239	

⁽¹⁾ Shareholders.

As of December 31, 2017 no provisions have been recognized in respect of loans given to related parties (December 31, 2016 - none).

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Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 29,814 during the year ended December 31, 2017 (December 31, 2016 – TL 27,255)

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.

25. Fees and commission income and expense

	2017	2016
Fees and commission income		
Commissions on loans	167,184	167,003
Commission income from commitments	114,850	96,005
POS commission income	56,034	46,027
Income from insurance & agency activities	40,860	26,193
Credit card fees and commissions	69,832	45,656
Money transfer commissions	31,458	27,385
Import letter of credit commissions	7,837	8,333
Commissions from checks and notes	17,669	15,334
Other	53,865	45,409
Total	559,589	477,345

	2017	2016
Fees and commission expense		
Credit card machine and fees paid for credit cards	81,030	60,150
Brokerage fees on borrowings	12,951	9,832
Mortgage expertise expenses	23,735	19,800
Correspondent bank fees	14,150	17,366
Fees for funds borrowed from banks and OFI	12	914
Money transfer commissions	9,616	8,361
Other	33,077	25,086
Total	174,571	141,509

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26. Salaries and employee benefits

	2017	2016
Staff costs		
Wages and salaries	437,617	383,198
Bonus	76,786	63,252
Social security premiums	83,850	79,524
Other fringe benefits	67,595	53,331
Health expenses	14,496	13,711
Provision for employee termination benefits	17,395	16,546
Other	15,145	15,547
Total	712,884	625,109

27. Other expenses

	2017	2016
Impairment on construction projects (Note 10)	31,042	-
Impairment on investment property (Note 11)	-	51
Impairment charges/(reversal)	31,042	51
Insurance fund premium expense	38,944	33,441
Professional fees	22,307	26,691
Advertising expenses	27,275	27,883
Communication	23,399	26,906
Cleaning expense	23,848	24,854
Repair and maintenance expenses	37,499	24,295
Energy expenses	13,497	12,390
Grants and donations	1,548	1,279
Subscription and membership expenses	13,505	7,031
Travel and representation expenses	6,024	4,943
Non taxable income	4,651	4,698
Stationery and publishing expenses	5,753	4,236
Insurance expenses	3,522	2,249
Loss from sale of assets	110	366
Other	41,326	33,555
Other expenses	263,208	234,817
Total	294,250	234,868

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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, 2017 and 2016.

	2017	2016
Letters of guarantee issued by the Bank	9,570,179	8,116,025
Letters of credit	932,100	1,019,786
Commitments	4,254,951	3,281,611
Acceptance credits	55,958	52,044
Other guarantees	513,816	701,362
Total	15,327,004	13,170,828

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The allocation of operational lease obligations due to rent agreements of branches within lease periods as of December 31, 2017 and 2016 is as follows:

	2017	2016
Within one year	198	14
After one year but not more than five years	295,303	247,117
More than five years	494,644	474,424
	790,145	721,555

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, 2017	December 31, 2016
Cheques received for collection	7,022,459	5,831,286
Notes received for collection	2,059,454	1,175,022
	9,081,913	7,006,308

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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.

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.

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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.

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.

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Gross maximum exposure	2017	2016
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	6,728,657	5,938,207
Balances with banks and other financial institutions	4,951,453	5,979,425
Due from financing activities	34,997,542	27,087,876
Minimum financial lease payments receivable, net	1,929,863	1,545,637
Financial assets-available for sale	4,428,672	3,751,680
Financial assets-held for trading	61,925	56,713
Other assets	938,061	700,487
Derivative financial instruments	26,699	110,049
Total	54,062,872	45,170,074
Contingent liabilities	10,502,279	9,135,811
Other guarantees	569,774	753,406
Commitments	4,254,951	3,281,611
Total	15,327,004	13,170,828
Total credit risk exposure	69,389,876	58,340,902

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, 2017 was TL 415,571 (December 31, 2016 - TL 404,708) and non-cash credit exposure as of December 31, 2017 was TL 173,071 (December 31, 2016 - TL 189,162) before taking account of collateral or other credit enhancements.

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2017	2016
	Gross exposure	Gross exposure
Financial services	20,762,386	20,306,738
Construction and materials	15,051,525	12,780,479
General retailers	10,605,616	7,368,450
Manufacturing	7,438,475	5,386,723
Electricity	2,488,666	1,973,831
Health care and social services	2,275,987	1,713,034
Food and beverages	1,438,536	1,128,846
Mining operations	777,259	467,388
Forestry	254,844	185,034
Telecommunications	261,266	209,301
Real estate	355,277	375,134
Other	7,680,039	6,445,944
Total	69,389,876	58,340,902

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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 portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models are shown the table below as of 31 December 2017.

	Cash Loans	Non-Cash Loans	Total
High Quality	54%	69%	57%
Medium Quality	28%	20%	26%
Average	9%	6%	9%
Below Average	5%	2%	4%
Unrated	5%	3%	4%

Aging analysis of past due but not impaired loans per class of 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	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
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	904,414	276,634	171,426	-	1,352,474
Consumer lending	33,502	90,083	53,342	-	176,927
Credit cards	4,416	2,743	1,478	-	8,637
Total	942,332	369,460	226,246	-	1,538,038

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2017 and 2016 comprise of blocked accounts, property and machinery pledges.

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Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Maturity analysis of assets and liabilities as of December 31, 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
Derivative financial instruments	23,126	3,573	-	-	-	26,699
Share Certificates	-	-	-	390	-	390
Sukuk held for trading	61,535	-	-	-	-	61,535
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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Maturity analysis of assets and liabilities as of December 31, 2016.

31 December 2016	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	1,875,863	-	-	-	-	1,875,863
Balances with other banks and financial institutions	4,667,469	1,192,814	119,142	-	-	5,979,425
Reserve deposits at the Central Bank	5,678,251	-	-	-	-	5,678,251
Financial assets – held for trading	154,572	11,800	-	390	-	166,762
<i>Derivative financial instruments</i>	<i>98,249</i>	<i>11,800</i>	-	-	-	<i>110,049</i>
<i>Share Certificates</i>	-	-	-	390	-	<i>390</i>
<i>Sukuk held for trading</i>	<i>56,323</i>	-	-	-	-	<i>56,323</i>
Financial assets – available-for-sale	1,836,605	43,704	1,331,415	440,199	99,757	3,751,680
Due from financing activities, net	8,747,141	8,341,283	9,708,931	1,673,819	162,339	28,633,513
Precious Metals	802,280	-	-	-	-	802,280
Other assets	-	-	-	-	700,487	700,487
Construction projects, net	-	-	-	-	77,939	77,939
Joint venture	-	-	-	-	15,236	15,236
Investment properties, net	-	-	-	-	26,129	26,129
Property and equipment, net	-	-	-	-	426,867	426,867
Intangible assets, net	-	-	-	-	140,467	140,467
Deferred tax assets	-	-	-	-	110,410	110,410
Assets and a disposal group held for sale	42,667	-	-	-	-	42,667
Total assets	23,804,848	9,589,601	11,159,488	2,114,408	1,759,631	48,427,976
Due to other financial institutions and banks	1,554,426	1,562,045	156,855	-	-	3,273,326
Sukuk securities issued	-	588,987	4,174,994	-	-	4,763,981
Subordinated Loans	-	-	-	1,981,646	-	1,981,646
Money market balances	1,219,873	-	-	-	-	1,219,873
Current and profit / loss sharing investors' accounts	30,961,329	1,035,668	15,468	-	3,588	32,016,053
Derivative financial instruments	115,586	4,141	137,829	-	-	257,556
Employee benefit obligations	-	55,927	-	-	66,581	122,508
Income taxes payable	27,851	-	-	-	-	27,851
Other liabilities and provisions	-	-	-	-	525,323	525,323
Liabilities	33,879,065	3,246,768	4,485,146	1,981,646	595,492	44,188,117
Net	(10,074,217)	6,342,833	6,674,342	132,762	1,164,139	4,239,859

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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, 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	5,135,766	6,278,234	1,687,880	59,699,144
As at December 31, 2016						
Due to other financial institutions and banks	-	1,554,426	1,591,414	171,162	-	3,317,002
Subordinated loans	-	16,258	16,258	833,640	1,264,059	2,130,216
Sukuk issued	-	596,812	165,605	4,459,973	-	5,222,390
Money market balances	-	1,258,349	-	-	-	1,258,349
Derivative financial instruments ^(*)	-	7,885,060	1,437,227	4,929	762,972	10,090,188
Current accounts	11,994,480	-	-	-	-	11,994,480
Profit and loss sharing accounts ^(**)	-	18,966,849	639,444	411,692	3,588	20,021,573
Total undiscounted financial liabilities	11,994,480	30,277,754	3,849,948	5,881,397	2,030,619	54,034,198

^(*) 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, 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
December 31, 2016						
Contingent liabilities and other guarantees	4,461,265	1,087,254	2,475,498	1,751,369	113,831	9,889,217
Commitments	3,281,611	-	-	-	-	3,281,611
Total	7,742,876	1,087,254	2,475,498	1,751,369	113,831	13,170,828

^(*) 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, 2017			December 31, 2016		
	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	11,072	11,072	-10	11,023	11,023
Gold	+10	(11,072)	(11,072)	+10	(11,023)	(11,023)

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2017			December 31, 2016		
	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
Currency						
USD	+10	96,356	98,116	+10	14,755	11,720
USD	-10	(96,356)	(98,116)	-10	(14,755)	(11,720)
EUR	+10	50,702	50,702	+10	21,166	21,166
EUR	-10	(50,702)	(50,702)	-10	(21,166)	(21,166)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

The concentrations of assets, liabilities and off balance sheet items:

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

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(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

December 31, 2016

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	378,584	720,778	67,561	19,657	1,186,580
Deposits with other banks and financial institutions	4,702,569	1,088,544	108,929	95,591	5,995,633
Reserve deposits at the Central Bank	370,990	3,927,014	-	1,380,247	5,678,251
Financial assets – available-for-sale	17,327	1,900,932	-	-	1,918,259
Financial assets – held for trading	-	126,015	-	-	126,015
Due from financing activities, net	3,278,547	7,081,879	5	108,137	10,468,568
Minimum finance lease payments receivable, net	504,505	683,959	-	-	1,188,464
Precious metals	-	-	-	802,280	802,280
Other assets	409,892	1,614	139	6	411,651
Property and equipment, net	5,469	89	-	-	5,558
Intangible assets, net	45,138	-	-	-	45,138
Total assets	9,713,021	15,530,824	176,634	2,405,918	27,826,397
Due to other financial institutions and banks	95,477	3,118,503	-	-	3,213,980
Sukuk issued	-	3,536,069	638,997	-	4,175,066
Subordinated loans	-	1,981,646	-	-	1,981,646
Current and profit / loss sharing investors' accounts	2,937,259	8,545,795	123,059	2,339,522	13,945,635
Other liabilities & provisions	20,933	41,326	5,005	372	67,636
Derivative financial instruments	-	216,960	16	-	216,976
Total liabilities and equity	3,053,669	17,440,299	767,077	2,339,894	23,600,939
Net balance sheet position	6,659,352	(1,909,475)	(590,443)	66,024	4,225,458
Net off-balance sheet position	(6,447,687)	1,761,924	86,906	446,475	(4,152,382)

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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(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

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, 2017 and 2016, 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

	2017	2016		
Tier 1 capital	4,394,331	3,815,622		
Tier 2 capital	1,602,684	2,014,393		
Deductions from capital	(171,117)	(100,647)		
Total capital	5,825,898	5,729,368		
Risk weighted assets amount subject to credit, market & operational risk	33,628,878	31,499,103		
	Actual	Required	Actual	Required
Tier 1 capital ratio	13.07%		12.11%	
Total capital ratio	17.32%	12%	18.19%	12%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

30. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2017, the fair value of financing and leasing receivables has been estimated as TL 34,664,282 (December 31, 2016 – TL 28,358,119) whereas their carrying amount is TL 36,927,405 (December 31, 2016 – TL 28,633,513).

Fair value of borrowings at amortized cost is estimated as TL 12,382,142 (December 31, 2016 – TL 11,587,174), whereas their carrying amount is TL 11,149,830 (December 31, 2016 – TL 11,238,826). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

31. Subsequent events

The Bank's subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. has issued a sukuk with four month maturity, TL 200,000 nominal and 12.60 % borrowing rate and with three month maturity, TL 350,000 nominal and 12.55 % borrowing rate during January 2018.

"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 will be applied for the first time in the first temporary tax period of 2018.

In the Ordinary General Assembly Meeting dated 29 March 2018, the Bank has decided to appropriate I. legal reserves amounting to TL 33,700, other reserves funded via retained profit from sales of real estate's amounting to TL 12,418, not to pay cash dividends to shareholders, to pay dividend to management amounting to TL 4,894, increasing capital account from internal sources via remaining net income amounting to TL 387,142 with distributing additional capitalized shares proportioned to shareholders' stake in share capital, to appropriate II. Legal reserves amounting to TL 489,412 and carry out remaining amount of TL 234,908 as extraordinary legal reserves. In accordance with the article 3 of the law on support for research and development activities numbered 5746, the Bank has decided to carry out the amount of 439 TL, received for the development activities, to the other reserves and to use for capital increase from internal sources.



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