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

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





Safeguarding our heritage **Supporting the future**

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

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

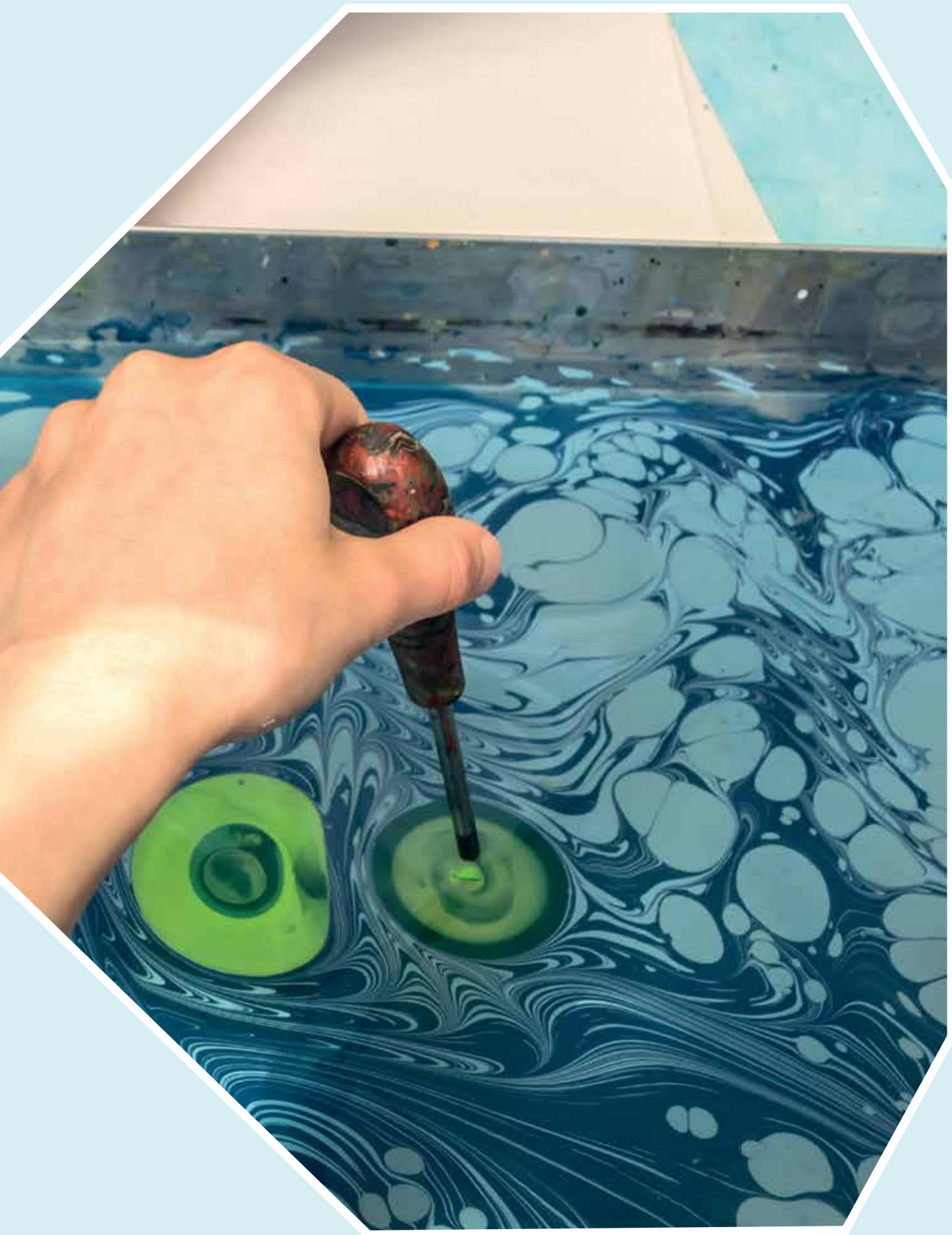
- Tomb of the Ottoman-era Poet and Composer Buhûrîzâde Mustafa İtrî in Istanbul,
- Saliha Sultan Fountain and Sebil (Charity Fountain) in Azapkapı, Istanbul,
- Historic masjid and shadirvan (fountain) at the heart of Bursa's Kozahan.

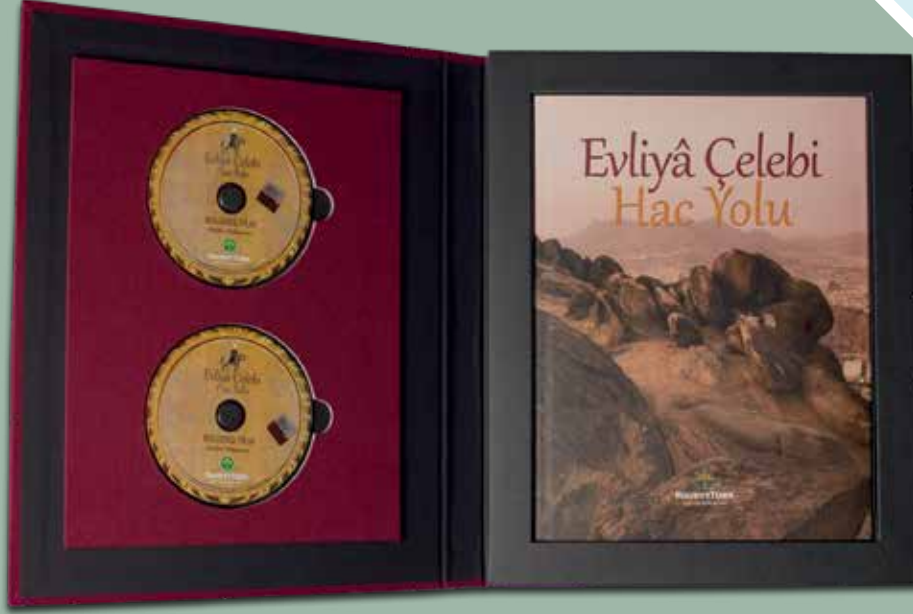
Supporting Arts and Culture

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

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









Reference Books for the Future

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

Support for Our Heroes

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









Support for Humanitarian Aid Campaigns

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

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

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

Support for Hope

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







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

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



SECTION 1: INTRODUCTION

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

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- 18** Summary of Financial Indicators
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Summary of Financial Indicators

Kuveyt Türk continued to achieve successful financial results in 2018: The Bank boosted its net profit for the period by 29% to TL 870 million during the year.

Summary of Financial Indicators (TL Thousand)*	2017	2018
Profit Sharing Income	3,850,986	5,997,843
Profit Sharing Expense	1,716,773	2,850,053
Net Fee and Commission Income	241,002	349,546
Other Revenues	477,101	1,111,204
Other Expenses	2,003,383	3,482,483
Tax Charge	(174,942)	(256,245)
Net Profit for the Period	673,991	869,812
Total Assets	57,123,095	74,232,325
Total Shareholders' Equity	4,591,151	5,438,553
Capital Adequacy Ratio (%)	17.66	17.68

*Unconsolidated figures.

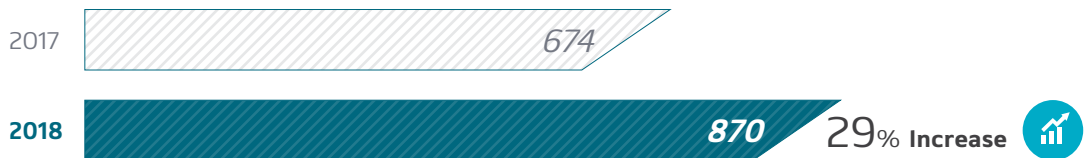
Profit Sharing Income (TL million)



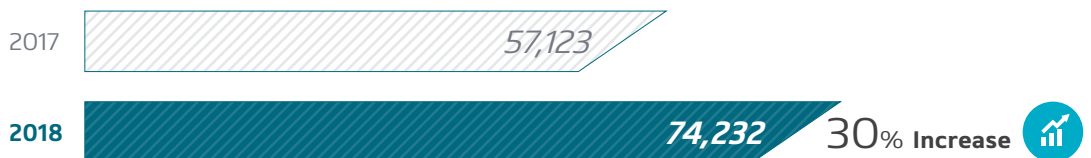
Net Fee and Commission Income (TL million)



Net Profit for the Period (TL million)

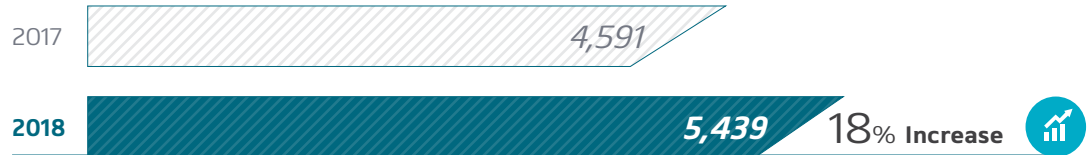


Total Assets (TL million)

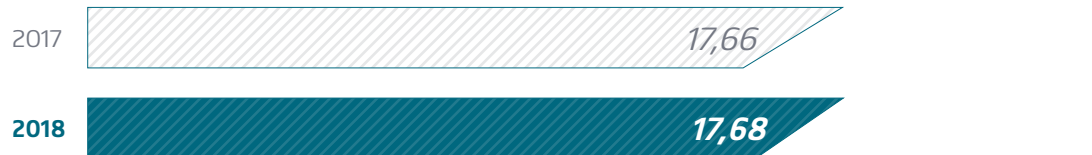


In 2018, Kuveyt Türk further strengthened its robust capital structure by boosting total shareholders' equity to TL 5.4 billion, up 18%.

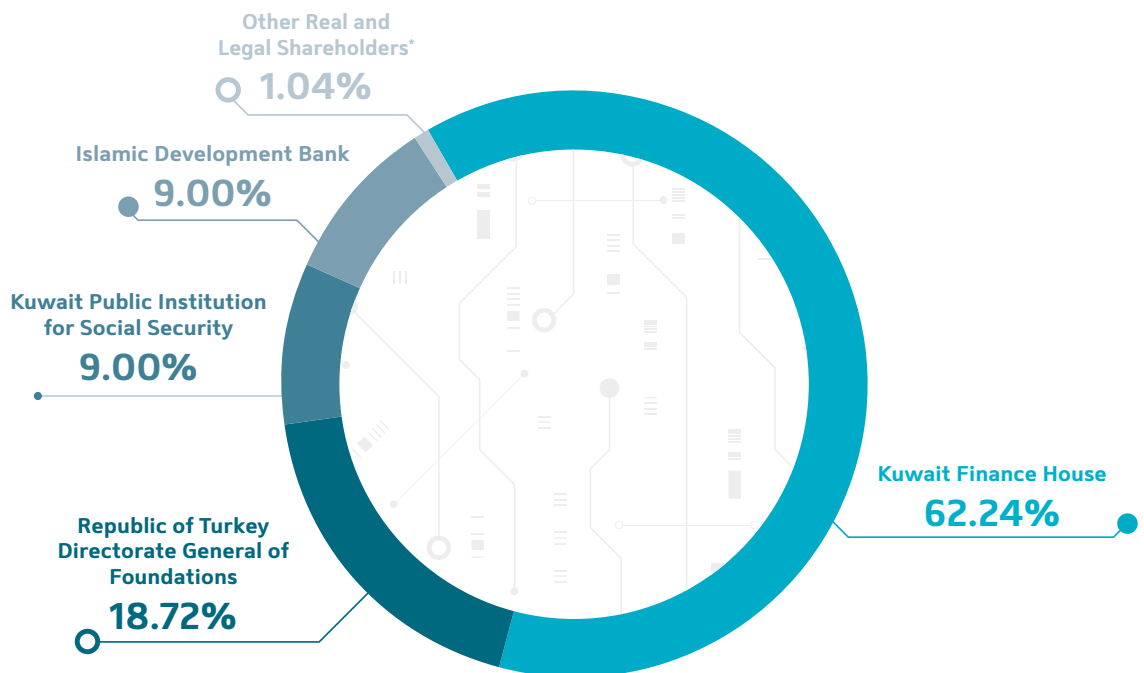
Total Shareholders' Equity (TL million)



Capital Adequacy Ratio (%)



Shareholding and Capital Structure



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

Agenda of the Ordinary General Assembly

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

AGENDA OF THE SHAREHOLDERS ORDINARY GENERAL ASSEMBLY

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

Amendments to the Articles of Association

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

OLD TEXT

CAPITAL

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

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

- a) TL 2,790,000,000.- (two billion seven hundred and ninety million Turkish lira) is fully paid.
- b) The TL 121,801,311.- (one hundred twenty-one million eight hundred one thousand three hundred eleven Turkish lira) of the increased amount of TL 310,000,000.- (three hundred ten million Turkish lira) is provided in full from the profit of 2016 (fully from internal resources). Against this capital increase, shareholders will be given bonus shares in proportion to their shares.

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

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

NEW TEXT

CAPITAL

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

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

- a) TL 3,100,000,000.- (three billion one hundred million Turkish lira) is fully paid.
- b) The TL 387,142,446.- (three hundred eighty-seven million one hundred forty-two thousand four hundred forty-six Turkish lira) of the increased amount of TL 400,000,000.- (four hundred million Turkish lira) is provided in full from the profit of 2017 (fully from internal resources). Shareholders will be given bonus shares in proportion to their shares against this capital increase.

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

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

Kuveyt Türk in Brief

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

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

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

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

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

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

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



**Total Shareholders' Equity
TL 5.4 Billion**

As of end-2018, Kuveyt Türk increased its total shareholders' equity by 18% to TL 5.4 billion.



**Net Profit for the Period
TL 870 Million**

Once again delivering successful financial results, Kuveyt Türk boosted its net profit to TL 870 million as of end-2018.



KUVEYT TÜRK



KUVEYT TÜRK

Kuveyt Türk in Brief



Robust Partnership Structure

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

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



Continuous Improvement Oriented Human Resources

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

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



Steady Growth in Assets

An industry standout with its robust capital structure and dynamic corporate governance approach, Kuveyt Türk reported TL 3.5 billion in paid-in capital as of year-end 2018. The Bank recorded total unconsolidated assets of TL 74.2 billion and shareholders' equity of TL 5.4 billion as of year's end.



Pioneer in Gold Banking

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



The Bank that Introduced Sukuk to Turkey

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

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

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

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



The Constantly Developing Technological Infrastructure

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

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

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

Kuveyt Türk in Brief



Participation Banking Compliant Supplier Funding Services from Kuveyt Türk

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

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

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



Besides Enterprises which Always Producing for Turkey...

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



Financial Bridge between Turkey and the World

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

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

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

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

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

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



The Story of 29 Successful Years

1989

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

1991

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

1994

The Head Office moved to its new building.

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

1998

Kuveyt Türk launched its first credit card.

1990

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

Kuveyt Türk's founding capital doubled.

1992

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

1995

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

1999

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

1993

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

1996

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

2000

The Bank started providing retail banking services.

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

1997

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

2001

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

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

The Story of 29 Successful Years

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

2012

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

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

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

2014

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

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

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

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

2013

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

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

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

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

2015

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

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

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

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

2016

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

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

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

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

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

2017

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

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

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

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

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

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

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

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

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

2018

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

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

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

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

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

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

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

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

About Kuveyt Türk



Mission

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

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



Vision

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

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

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

Our Quality Policy

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

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

Values

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

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

Ethical Principles

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

- Integrity
- Impartiality
- Transparency
- Confidentiality
- Ethical approach

Our Service Principles

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

- Reliability
- Responsiveness
- Empathy
- Solutions-oriented

Message from the Chairman

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





Total Assets
TL 74 Billion

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

Esteemed Shareholders,

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

Weakened Global Growth Forecast

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

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

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

Turkish Banking Industry Maintains Strong Outlook

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

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

Kuveyt Türk is a Standout with Its Asset Quality

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

Multiplying Our Successes...

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

With regards,



Hamad Abdulmohsen Al Marzouq
Chairman of the Board of Directors

Message from the CEO

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



Esteemed Shareholders,

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

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

The Bank's financial results as of year-end 2018 further strengthened its strong financial position in the participation banking sector. In 2018, Kuveyt Türk's fund size increased more than 35%, assets went up 30%, and net period profit rose over 29% with an greater focus on efficiency. Total assets amounted to TL 74 billion and net profit was TL 869.8 million. While the total amount of funds allocated by the Bank climbed to TL 45.9 billion and funds collected totaled TL 54 billion, Kuveyt Türk's NPL ratio remained well below the industry average at 2.47%.

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

Strong Financial Support for the Real Economy

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

New Area of Expertise: Renewable Energy Finance

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

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

Lease Certificate Issues Total TL 5.1 billion

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

Consistent Growth Overseas with KT Bank AG

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

A Pioneering Force in FinTech

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

Message from the CEO

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

Significant Growth in Digital Customer Numbers

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

Customer Experience Excellence in Digital Banking

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

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

New Ecosystem Collaborations

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

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

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

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

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

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

With regards,



Ufuk UYAN

Member of the Board of Directors and CEO

SECTION 2: ACTIVITIES IN 2018

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

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- A diagonal line with circular markers, each followed by a number and a department name. The background features a faint, light blue circuit board pattern with various electronic symbols and lines.
- 42 Retail Banking
 - 48 SME Banking
 - 52 Corporate and Commercial Banking
 - 54 Treasury and International Banking
 - 60 Loans
 - 62 Law and Risk Follow-up Group
 - 66 Strategy
 - 78 Banking Service Group
 - 93 Financial Affairs

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- A diagonal line with circular markers, each followed by a number and a department name. The background features a faint, light blue circuit board pattern with various electronic symbols and lines.
- 98 Risk, Control and Compliance Group
 - 101 Internal Audit and Inspection Department
 - 102 Awards

Retail Banking

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

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

Private Banking Group

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

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

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

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



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

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

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

444 7 323
www.kuveytturk.com.tr

KUVEYTÜRK | PRIVATE BANKING

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

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

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

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

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

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

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

Retail Banking

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

Retail Marketing Department

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

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

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

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

Accounts

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

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

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

Credit and Debit Cards

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

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

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

Financing

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



**Total Retail Funds
Market Share
46%**

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

Insurance and Pensions

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

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

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

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

Private Pension offer to Kuyumcukent

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



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

Retail Banking

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



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

Digital Marketing Department

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

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

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



Active Customers on
Digital Banking Platform
950 Thousand

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

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

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

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

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

SME Banking

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

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

TL 12.2 Billion in Deposits...

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

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

62 Thousand New Customers

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

Online Finance System

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

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

Online Letter of Guarantee System

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

Bundle Management

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

Leasing with Profit Share

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

Supply Chain Finance

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

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

Sağlam KOBİ Kart (Sağlam SME Card)

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

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

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

Sağlam Dealer Credit Card

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

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

Agricultural Banking

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

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



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

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

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

SME Banking

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

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

School Installments System (OTS) and University Fee Collections

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

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

Fixed Tariff POS

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

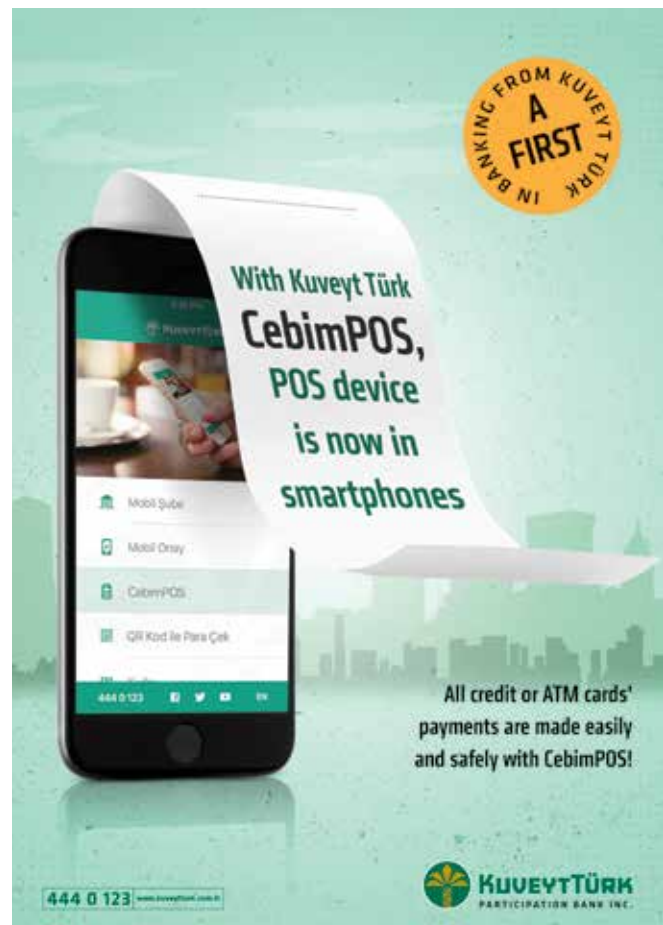
Profit Sharing POS

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

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

Virtual POS upgrades

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



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



**Export Loans
Provided
USD 926
Million**

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

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

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

mPOS (CebimPOS)

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

Foreign Trade Marketing

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

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

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

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

Marketing and Product Development Activities

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

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

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

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

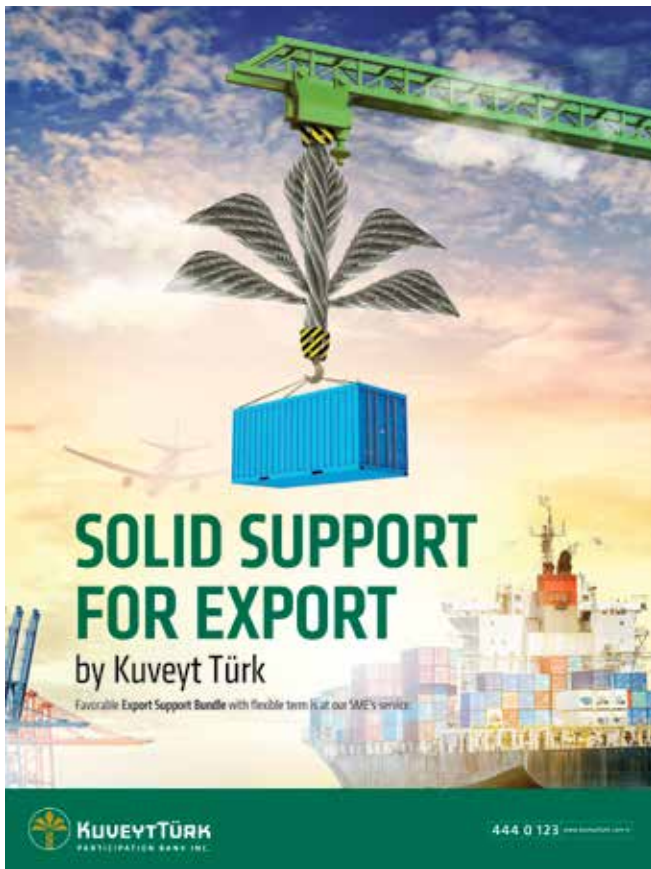
Key Indicators

As a result of successful activities in 2018:

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

Corporate and Commercial Banking

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



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

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

Corporate Marketing Department

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

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

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

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

Commercial Marketing Department

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

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

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

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

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

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

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

Project and Structured Finance Department

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

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

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

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

Treasury and International Banking

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



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

The Treasury and International Banking Group, made up of International Banking, the Treasury Group, Investment Banking, as well as Overseas Branches and Subsidiaries, strives to sharpen the Bank's domestic competitive edge, by offering customers a wider array of high quality products and services. The Group is progressing toward regional structuring in line with Kuveyt Türk's strategic targets. In 2018, the Group contributed to the Bank's growth and profitability.

Treasury Group Directorate

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

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

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

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

Foreign Exchange and Precious Metals Department

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

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

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

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

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

Assets and Liabilities Management Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury and International Banking

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

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

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

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

Treasury Marketing Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury and International Banking

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

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

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

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

Financial Institutions Department

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

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

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

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

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

Financial Institutions Loans and Business Coordination

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

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



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

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

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

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

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

Loans

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

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

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

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

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

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

**With Kuveyt Türk Supplier Financing,
BOTH BUYERS AND SELLERS
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In 2018, the Department reached project funding in excess of TL 4 billion, TL 2.5 billion of which went to SPP projects, as well as TL 250 million in agricultural loans.



**CGF Collateralized
Loans Volume
TL 2.5 Billion**

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

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

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

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

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

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

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

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

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

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

Law and Risk Follow-up Group

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



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

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

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

The successful performance in asset quality was achieved due to

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

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

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

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

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

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

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

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

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

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

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

Law and Risk Follow-up Group

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

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

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

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

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

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

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

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

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

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

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

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

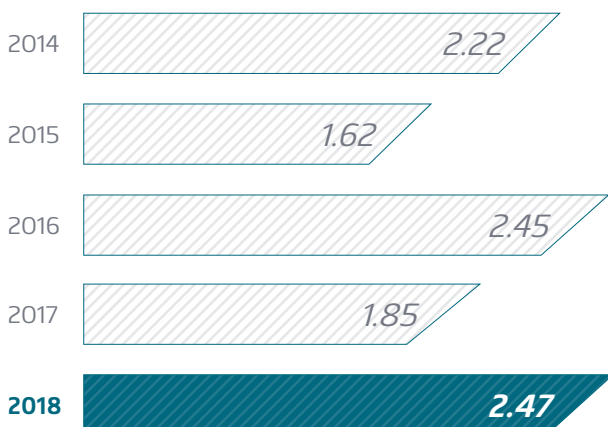
In order to monitor and protect customers' rights even in the absence of a customer complaint, Kuveyt Türk established the Customer Rights and Regulatory Compliance Department under the Bank's Law and Risk Follow-up Group marking an unprecedented move for the industry. The department was established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

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

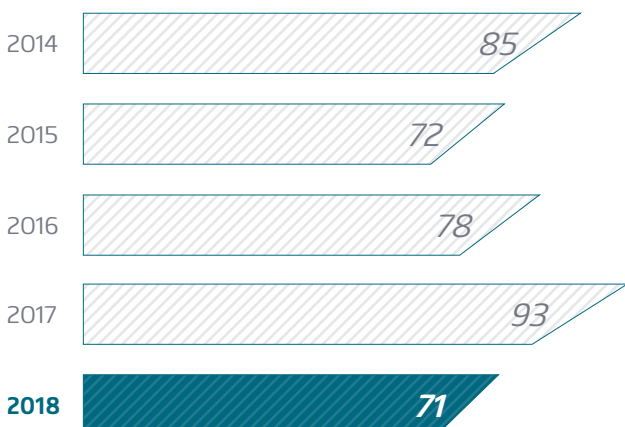
The Customer Rights and Regulatory Compliance Department continued to act as a consultant to other relevant units concerning new or amended legislation. The entire range of new products launched, or system enhancements introduced by the Bank were checked by the Department for compliance to the legislation.

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

Non-performing Loan Ratio (%)



Provision Ratio (%)



Strategy

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



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

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

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

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

Strategy Planning and Corporate Performance Management Department

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

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

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

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

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

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

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

Strategic Program Management Office

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

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

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

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

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

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

Corporate Communications Department

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

Strategy

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

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

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

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

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

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

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

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

Digital Transformation Group Directorate

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

Digital Transformation and Innovation Directorate

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

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

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

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

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

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

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

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

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

Product Development Department

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

Core Banking Product Development

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

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

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

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

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

Strategy

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

Funding Product Development

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

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

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

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

Foreign Trade and Treasury Product Development

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

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

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

Digital Banking Product Development

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

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

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

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

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

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

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

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

Payment Systems and Product Development

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

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

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

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

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

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

Process Development Department:

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

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

Some of the initiatives to ensure this are as follows:

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

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

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

Other efforts carried out in 2018 are as follows:

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

Strategy

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

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

Human Resources, Training and Quality Group Directorate

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

Human Resources Department

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

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

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

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

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

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

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

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

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

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

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

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

Performance Development: Kuveyt Türk Human Resources Department supports the managers and employees in their continuous development process through transparent performance evaluations based on competencies and measurable targets as well as regular feedback. The Portfolio Management System allows branch employees to receive their monthly and annual performance scorecards in a more straightforward manner. The rest of the organization and the Head Office Departments are assessed under the Corporate Performance Management project with the Balanced Scorecard Model, which tracks and reports on the scorecard developments biannually.

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

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

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

Compensation: Through its dedicated Compensation Management System, Kuveyt Türk aims to motivate employees to outperform their assigned objectives, to identify employees performing at various levels, and to remunerate them based on their performance. Therefore, Kuveyt Türk's compensation structure is based on a "Total Compensation Package" consisting of salary, performance bonus, foreign language allowance,

transportation assistance, and other supplementary payments. In order to remain competitive in the market, Kuveyt Türk also offers various benefits to employees including private health insurance (with cover for spouse and children), personal accident insurance, a private pension system with company contribution, clothing assistance and family support package.

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

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

Strategy

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

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

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

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

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

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

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

Career and Recruitment Department

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

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

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

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

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

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

Training and Development Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategy

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

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

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

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

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

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

Organization and Quality Development Department

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

- Conducting customer surveys,
- Conducting projects in order to improve the service quality and resolving customer complaints,
- To receive and resolve customer complaints,
- Executing enhancement projects to boost customer satisfaction,
- Correcting, preventing and ameliorating any current or future problems arising from the Bank's products and services via the CPR (Corrective, Preventive and Remedial Actions) system,
- Conducting and controlling projects related to ethical banking,
- Evaluating suggestions sent by customers and employees over the Sound Idea Platform,
- Regularly reviewing the Bank's organizational structure, building an effective organizational structure that meets the market and customer expectations in light of technological advances and establishing the optimal allocation of duties/responsibilities,
- Conducting permanent staff studies, ensuring operations are carried out by an optimized level of staffing,
- Conducting job grading studies, ensuring that posts are correctly positioned on the scale,
- Managing the authorization and workflow systems, designing workflows appropriate for the organizational structure and granting authorization in line with the job descriptions,
- Supervising the Quality Document Management System, ensuring the documentation is up-to-date and complete,
- Performing the work needed for ISO 10002 and EN 15838 quality certifications, and establishing an effective Quality Management System.

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

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

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

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



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

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

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

Organization and Quality Development

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

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

Customer Satisfaction

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

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

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

Banking Services Group

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

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

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

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

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

Administrative Services Group Directorate

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

Administrative Services and Procurement Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Construction and Real Estate Department

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

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

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

Security Department

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

Operations Group Directorate

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

Banking Operations Department

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

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

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

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

Banking Services Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Trade and Treasury Operations Department

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

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

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

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

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

Banking Services Group

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

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

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

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

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

Credit Operations Department

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

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

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

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

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

Payment Systems Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Call Center Department

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

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

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

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

Banking Services Group

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

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

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

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

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

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

Central Operations Department

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

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

The Letter of Guarantee Service conducts the following activities:

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

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

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

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

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

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

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

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

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

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

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

As part of the Service's activities in 2018:

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

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

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

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

The functions extended by Senin Bankan Branch are as follows:

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

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

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

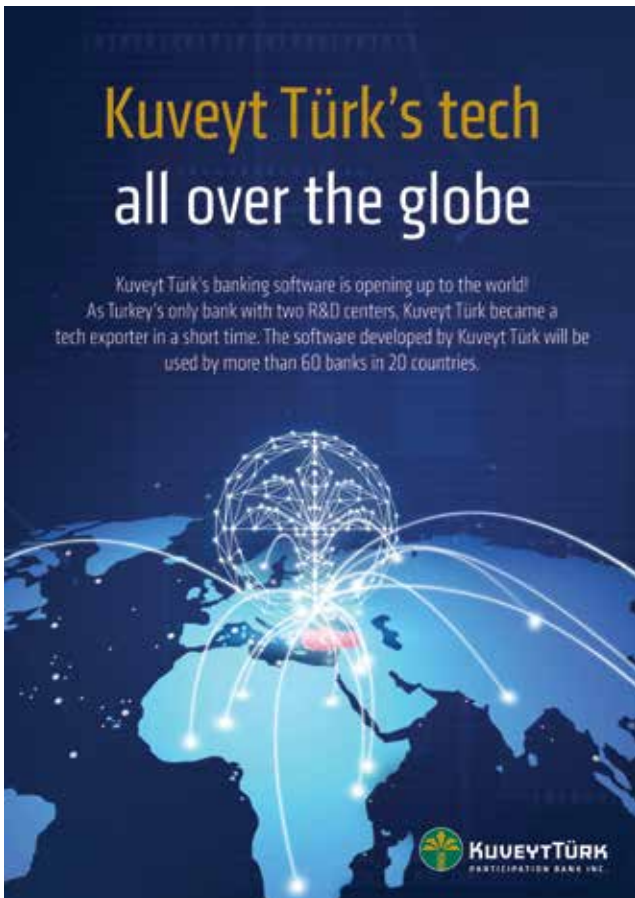
In 2017, the emphasis was on developing the Anonymous Debit Card and enhancing customer experience to boost operational efficiency. In 2018, Customer Relations Representative Field Team conducted distribution activities in seven cities with 22 staff. While it distributed 14% of consignments the previous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

In 2018, under the Department,

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

Banking Services Group

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



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

The goals of the department for 2019 are as follows:

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

Product and Customer Security Department

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

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

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

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

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

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

Information Technologies Group Directorate

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

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

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

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

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

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

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

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

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

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

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

Banking Services Group

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

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

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

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

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

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

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

international list controls, account balance checks and data verifications.

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

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

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

Adapting E-Signature to the Notification Process:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Banking Services Group

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

Call Center 444 Line Active-Active Communications

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

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

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

Database Performance Improvements and Upgrades:

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

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

Normshield Security Vulnerability Management Tool:

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

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

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

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

KT Bank AG Projects

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

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

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

Financial Affairs

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

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

The Financial Affairs Group's functions are as follows;

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

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

Accounting and Tax Department

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

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

The Department performs the following activities:

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

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

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

Financial Affairs

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

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

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

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

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

Financial Control Department

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

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

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

Financial Control and Risk Analysis Unit

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

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

Participation Funds Management and Data Analysis Unit

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

Treasury Control (Middle Office) Unit

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

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

Expense Management Unit

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

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

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

Financial Affairs

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

Budget and Executive Reporting Department

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

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

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

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

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

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

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

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

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

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

External Reporting Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk, Control and Compliance Group

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

Internal Control Department

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Management Department

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk, Control and Compliance Group

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

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

In 2018, efforts were made to comply with the policies and procedures of the Bank's parent company Kuwait Finance House regarding market risk, liquidity risk and asset and liability management and the relevant work is completed.

Operational Risk: As part of operational risk studies, work has been carried out in coordination with the Risk Management Department and Internal Control Department for Risk Control Self-Assessment studies. These efforts are set to continue in coming years, too.

In 2018, work was undertaken to comply with operational risk policies and procedures of the Bank's main partner Kuwait Finance House, and the Bank's maturity level was improved.

The Bank's operational risk loss data is stored systematically and in compliance with Basel III standards. Operational risk concentrations have been actively monitored and reported to the Audit Committee, through a terminology appropriate to Basel III. Furthermore, studies have been conducted for compliance with the operational risk Best Practice Guidelines issued by BRSA. An active role was played in the efforts required by the Support Units Regulation, and the Risk Management Program related to Support Units was revised and presented to the Board of Directors.

IT Risk: Conducting the assessment work of the risks for Information Technology activities arising from changes in technology, the Risk Management Department undertakes important roles in risk monitoring and risk activity follow-up.

In 2018 work was undertaken with the lead of Risk Management Department to improve the Bank's maturity level in business continuity. Works regarding the identification of critical processes and critical IT systems, and assurance of redundancy of these systems were conducted in 2018. The Bank's intervention and business continuity plans were updated and new plans were drawn for business units.

Compliance Department

Compliance Department is part of the internal systems units that identifies, assesses, monitors, reports and offers consultancy in the legal risk in Kuveyt Türk and its subsidiaries. Operating in affiliation with the Internal Systems Committee, and reporting on its operations to the Committee, the Compliance Department has two main functions:

Compliance Control Unit

- Checking the compliance of all existing and planned activities, new products, the services and transactions of the Bank to the regulations, internal policies and rules, and banking trends,
- Executing compliance control function as laid out under the compliance program and annual compliance control plan,
- Monitoring and controlling compliance of the subsidiaries and foreign branches to the relevant regulations, and their periodic reporting to the Department.

Financial Crimes Investigation Board (MASAK) Compliance Unit

- Ensuring that the Bank's activities are carried out in accordance with the legislation on the prevention of money laundering, proceeds of crime and financing of terrorism,
- Ensuring the Bank's customer quality is maintained through effective risk management, monitoring and control activities,
- To detect suspicious transactions and to notify the public authorities,
- To act as advisor for the Head Office units and branches on matters related to MASAK legislation,
- To offer comments and suggestions in the course of designing the banking products to be offered to customers in accordance with MASAK legislation,
- To raise awareness and consciousness of the Bank's employees regarding the relevant legal obligations.

The Internal Audit and Inspection Department

The mission of the Internal Audit and Inspection Department is to preserve and enhance the Bank's corporate value through risk-oriented and objective assurances, suggestions and predictions.

The vision of the Department is to help the Bank achieve its strategic targets and to be viewed as an exemplary internal audit unit in the industry due to its outstanding professional and ethical practices.

The Internal Audit and Inspection Department, whose compliance with international internal audit standards is confirmed by independent bodies, reports to the Audit Committee and submits periodic reports to the Board of Directors via the Audit Committee. The Department operates without any restrictions, within the scope of its annual business plan prepared on the basis of a risk-focused audit planning that includes the Bank's all business processes, units, branches and subsidiaries as well as information systems.

The Department performed its 2018 operations pursuant to the requirements of the business plan and the shareholders' expectations; conducted special examinations and legal or administrative investigations in required situations and fields. Additionally, as part of the management declaration audits, it performed a comprehensive assessment on the effectiveness, adequacy and compliance of information systems general controls and business processes controls in our Bank. The said assessments form a concrete basis for the management declaration that should be submitted to the Independent Auditing Institution by the Board of Directors.

The Department monitored report actions throughout the year via follow-up programs and reported follow-up results to the proper authorities when required. Similarly, operational activity reports were successfully submitted at least every three months to the Audit Committee, Internal Systems Committee, and the Board of Directors. These reports have also been submitted to the BRSA.

Awards



The background of the slide features several large, faint, light-colored stars. One star is prominent on the left side, and others are scattered across the upper and middle sections of the slide.The logo consists of a solid red square. Inside the square, the words "Great Place To Work" are written in a white, bold, sans-serif font. A registered trademark symbol (®) is located at the bottom right of the word "Work".

**Great
Place
To
Work®**

Turkey's Best Employers

Comment from the CEO

The most important value of our Bank, trust, emanates from our employees, stakeholders and customers. What encompasses them all is the value we attach to people. As we generate a happier workplace that reflects our values through the employee engagement approach, we put our colleagues at the heart of everything, we build stronger bonds with our customers and continue with our steady growth.

Ufuk UYAN

Member of the Board of Directors and Chief Executive Officer

Awards

As the trailblazer of Turkey's participation banking sector Kuveyt Türk's innovative products and services were recognized by several awards in Turkey and overseas by various international organizations and associations.

Kuveyt Türk received a prize at the Candidate Experience Award 2018, organized by Talent Board Foundation, measuring the job candidates' interview experiences.

The Bank received the top award in the "Best Islamic Capital Markets Transaction" category of 2018 Bonds & Loans Turkey Awards.

Kuveyt Türk won an award in the Participation Banking category for a third successive year at the A.L.F.A. Awards celebrating brands with the best customer experience management.

Kuveyt Türk's 2016 Ramadan commercial film won the first prize in the category "Performance," one of the most important awards of YouTube, as the highest-performing commercial film on the platform in Europe and the Middle East region.



In 2018, at the ETİKA Competition where Ethical Values Association EDMER ranks companies according to their compliance with ethics-related criteria, Kuveyt Türk received the Ethics Award for the third time, thanks to its commitment to Ethical Banking principles.

At International Data Corporation Turkey's (IDC) Finance Technology Awards 2017, Kuveyt Türk won the first prize for its API Market Platform in the "Digital Channels" category, and second prize in the "Expanding Financial Base" category.

At World's Best Banks Awards organized by the Global Finance Magazine, Kuveyt Türk was named "Turkey's Best Islamic Finance Institution" with Sağlam Kart receiving the "Best New Generation Credit Card" award, while Kuveyt Türk's full subsidiary KT Bank AG received the award for "Europe's Best Islamic Finance Institution."

As the only bank in Turkey with two R&D centers, Kuveyt Türk received the "Best R&D Center" award in the "Banking and Finance" category at the seventh edition of R&D and Design Centers Summit organized by the Ministry of Science, Industry and Technology in 2018. As the recipient of the award for a fourth consecutive year, Kuveyt Türk boasts a hard-to-beat record in the field.

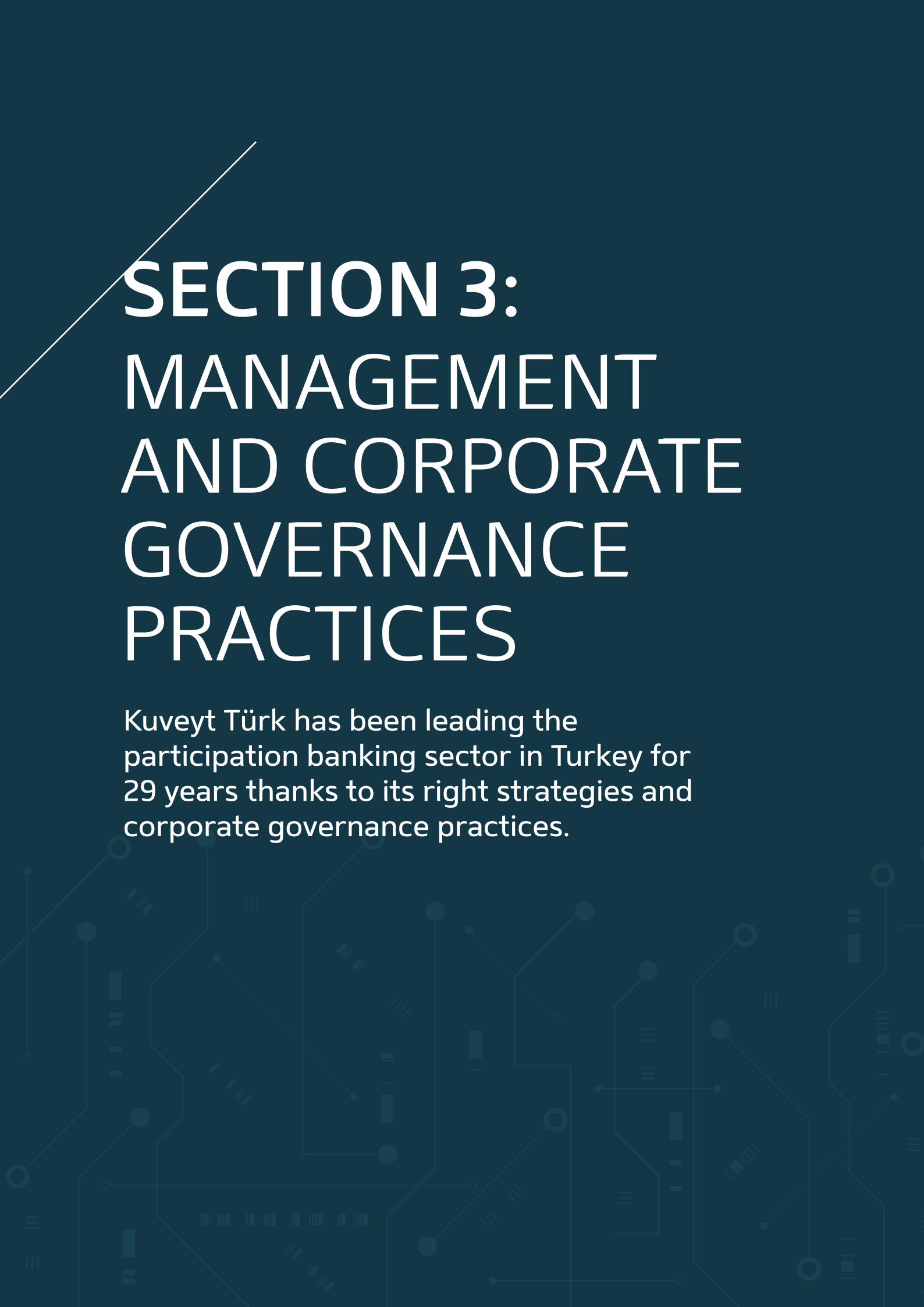


2018

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

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

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

The background of the slide features a dark blue gradient with a subtle, intricate pattern of light blue lines and dots, resembling a circuit board or a network diagram. A thin white diagonal line cuts across the upper left portion of the image.

SECTION 3: MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES

Kuveyt Türk has been leading the participation banking sector in Turkey for 29 years thanks to its right strategies and corporate governance practices.

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- A diagonal line with circular markers, each containing a page number and a title, runs from the bottom-left towards the top-right. The background features a faint, light-blue circuit board pattern with various electronic symbols and lines.
- 108** Board of Directors
 - 111** Senior Management
 - 115** Organizational Chart
 - 116** Summary Report of the Board of Directors Submitted to the General Assembly
 - 117** Executives within Internal Systems
 - 118** Senior Management Committees
 - 120** Related Party Transactions
 - 120** Outsourced Services

Board of Directors



Hamad Abdulmohsen Al Marzouq / Chairman of the Board of Directors

Hamad Abdulmohsen Al Marzouq holds a Master's degree from Claremont University and a Bachelor's degree from the University of Southern California in the U.S. awarded in 1985. He has taken senior positions at Kuwait Investment Corporation till 1990, then joined Central Bank of Kuwait between 1990 and 1998 and Ahli United Bank Bahrain between 1998 and 2014. Mr. Al Marzouq has been appointed as the Chairman of Board of Directors of Kuveyt Türk in 2014. Mr. Al Marzouq is also a Member of Corporate Governance Committee, Executive Committee and Credit Committee.



Dr. Adnan Ertem / Vice Chairman of the Board of Directors

Mr. Ertem graduated from Istanbul University, Faculty of Political Sciences in 1987. He received a Post-Graduate degree in Political Sciences at the Institute of Social Sciences of the same university in 1990, and PhD with his thesis on Social Structure and Social Change in 1998. Mr. Ertem began his professional career as the Deputy Inspector at General Directorate of Foundations in 1988 and he was assigned to Istanbul Regional Directorate of Foundations in 2002, having served at different positions in the same institution. Mr. Ertem was assigned as Member of Board of Directors of Kuveyt Türk in the same year. He also serves as the Member of Bank's Internal Systems Committee, Audit Committee and Corporate Social Responsibility Committee. Between 2007 and 2010, Mr. Ertem worked as the Deputy Secretary at the Prime Ministry. He was subsequently assigned to General Directorate of Foundations in 2010.



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

Khaled N. Al Fouzan graduated from Kuwait University, Department of Business Administration in 1978. Mr. Al Fouzan began his professional career at Kuwait Commercial Bank, later working as a Director at the Kuwait Public Institution for Social Security, and then as Manager of the Banking Department in 1984. In 2014, he became the Executive Vice President at Kuwait Finance House, serving alongside as a Member of the Board of Directors at Ahli United Bank London, Gulf Custody Company and Al Manar Leasing. He served as a member of the Board of Directors at Kuwait Industry Bank between 1995 and 2015, and director at KCC between 1998 and 2004. Mr. Al Fouzan has been serving as a Member of the Board of Directors of Kuveyt Türk since August 2006 and is a Member of the Internal Systems Committee.



Mazin S.A.S Al Nahedh / Member of the Board of Directors

Mr. Al Nahedh received his Bachelor's degree in Finance from California State University. He started his professional career in 1993 at the Central Bank of Kuwait as Bank Relations Director. In 2001, he was appointed as the Managing Director of the Bank's Treasury Unit. In 2006, he was appointed as the Assistant General Manager to the Treasury Department, later assuming the roles of Vice President of Treasury in 2007 and President of Treasury in 2008. He served as General Manager of Corporate Banking Group between 2008 and 2011, and later as at the National Bank of Kuwait (NBK) including his role as a member of the Management Executive Committee from November 2010 to 2014. He was also a Member of the Board of Directors of the Central Bank of Kuwait between November 2010 and 2014. With over 25 years of experience in banking, Mr. Al Nahedh has been Managing Director of Kuwait Finance House since October 2014. He's also a Member of the Board of Directors at Kuveyt Türk since September 2015. Mr. Al Nahedh is also on Kuveyt Türk's Executive Committee, Loan Committee, Remuneration and Nomination Committee and the Corporate Social Responsibility Committee.



Fawaz Al Saleh / Member of the Board of Directors

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



Ahmad S. Al-Kharji / Member of the Board of Directors

Ahmad S. Al-Kharji graduated from the Finance and Banking Department of Kuwait University in 1994 and obtained an MBA degree from San Diego University in 1998. He became a Vice President for Structured Finance at Kuwait Finance House. Between 2003 and 2006, Mr. Al-Kharji served as Senior Investment Division Manager and then as Senior Vice President at LMH between 2008 and 2013. He has served as a Member of Board of Directors of Kuveyt Türk since March 2014. Mr. Al-Kharji, who has been a Member of the Kuveyt Türk Board of Directors since March 2014, is also a Member of the Audit Committee and the Remuneration and Nomination Committee.

Board of Directors



Mohamad Al Midani / Member of the Board of Director

Mr. Al Midani graduated in 1988 from the Lebanese American University's Business Administration, and he obtained a postgraduate degree in Accountancy from Concordia University, Montreal. His career includes various posts in the field of auditing, including employment for Canada Economic Development Agency in Montreal and Ernst & Young in Jeddah. He also worked as Finance Director in a private sector company in Saudi Arabia, followed by a role at the Islamic Development Bank (IDB) since 2001. In IDB, he held the post of Lead Internal Auditor, and since 2010 he has been the Head of Equity Investment Division. With over 25 years of experience in audit, accounting, financial analysis and management consulting, Mr. Al Midani is a Member of Board of Directors of Kuveyt Türk since March 31, 2015. Mr. Al Midani is also Member of the Bank's Audit Committee and the Internal Systems and Corporate Governance Committee.



Nadir Alpaslan / Member of the Board of Director

Mr. Alpaslan graduated from Istanbul University, Faculty of Political Sciences, Public Administration Department in 1987. He began his professional career at Prime Ministry, Family Research Institution in 1999 and worked as the Ministry Consultant and President of Administrative Financial Affairs at the Ministry of Tourism for four years. Mr. Alpaslan continued his professional career as the Deputy Secretary and Ministry Consultant at the Ministry of Culture and Tourism between 2003 and 2007, and became the Deputy Secretary General at the Presidency in 2007. Mr. Alpaslan has been a Member of Board of Directors of Kuveyt Türk since April 15, 2011 and he is Member of the Bank's Corporate Governance and Ethical Baking Committees.



Ufuk Uyan / Member of the Board of Directors and Chief Executive Officer

Mr. Uyan graduated from the Economics Department of Boğaziçi University in 1981. He received Postgraduate degree from the Business Management Department of the same university in 1983. He began his professional career as the Research Assistant at the Economics Department of Boğaziçi University in 1979 and worked as the Researcher Economist at the Specific Researches Department at Türkiye Sınai Kalkınma Bank in 1982. Mr. Uyan became the Vice Project Manager at Albaraka Türk in 1985 and continued his career as the Project and Investments Manager at Kuveyt Türk in 1989. Mr. Uyan was promoted as the Executive Vice President in 1993 and then assigned as Head Assistant to the Chief Executive Officer. Mr. Uyan has been the Chief Executive Officer since 1999 and continues his duty as a Member of Board of Directors and CEO at Kuveyt Türk. Mr. Uyan is also Member of the Executive Committee, Loan Committee, Remuneration and Nomination Committee and the Corporate Social Responsibility Committee.

Senior Management



Ufuk Uyan / Member of the Board of Directors and Chief Executive Officer

His resume is presented in the Board of Directors section on p110.



Dr. R. Ahmet Albayrak / Executive Vice President – Treasury and International Banking

Mr. Albayrak graduated from the Industrial Engineering Department of Istanbul Technical University. He received postgraduate degree in Organizational Leadership and Management at the University of North Carolina at Pembroke, USA in 1993 and was awarded a PhD degree on Technology Management at Istanbul Technical University, Department of the Business Administration in the Social Sciences Institute in 2007. Having joined the participation banking sector 30 years ago, Mr. Albayrak has been serving as the Executive Vice President at Kuveyt Türk since 2005. He managed the Banking Service Group till October 2012 and he was assigned as the Executive Vice President of Treasury and International Banking as of the same date.



Abdurrahman Delipoyraz / Executive Vice President - SME Banking

Mr. Delipoyraz graduated from the Industrial Engineering Department of Istanbul Technical University. He began his career in the Kuveyt Türk family at the Project and Investment Department and he worked at the Corporate and Commercial Banking Sales Department and Financial Analysis and Information Department till 2000. Mr. Delipoyraz worked as the Branch Manager at Beşyüzevler and Bakırköy Branches between 2000 and 2004. He was assigned as the Regional Manager in December 2004 and he worked at Istanbul Europe 1 and Istanbul Anatolia Regional Directorates. He has been serving as the Executive Vice President of SME Banking since January 2015.

Senior Management



Ahmet Karaca / Executive Vice President - Chief Financial Officer

Mr. Karaca graduated from Ankara University, Faculty of Political Sciences, Public Administration Department in 1990. He started his duty as the Sworn Deputy Auditor of Banks at Undersecretariat of Treasury in 1992 and he was assigned as the Sworn Auditor of Banks in 1995. He continued his duty with the same title at the Banking Regulation and Supervision Agency (BRSA) from 2000, and he was assigned as the Vice President of Sworn Auditors Committee of Banks between 2002 and 2003 at the BRSA. After approximately one year of service, he was assigned as the Sworn Head Auditor of Banks in 2004. Between 2004 and 2006, he received a Post graduate degree in Economics from the State University of New York at Albany, USA and has penned a postgraduate thesis on International Banking and Capital Markets. Mr. Karaca joined Kuveyt Türk as the Chief Financial Officer in July 2006 and continues to serve under this title.



Ahmet Süleyman Karakaya / Executive Vice President - Corporate and Commercial Banking

Graduated from the Business Administration and Finance Department at the Istanbul University, Faculty of Economics, Mr. Karakaya began his banking career as an Inspector at Garanti Bank, where he went on to work at the Audit Committee, Risk Management department Loans Department, and Regional Directorates between 1981 and 2003. Mr. Karakaya has been working as the Executive Vice President of Corporate and Commercial Banking at Kuveyt Türk since 2003.



Aslan Demir / Executive Vice President - Strategy

Mr. Demir graduated from Marmara University, International Affairs Department. He completed his Master's degree at Sheffield University with thesis on topic of Critical Elements of Strategy Implementation in Banking Sector. He began his banking career in Kuveyt Türk Treasury Department in 1995, served at the Treasury Department for six years and continued his career at Project Management and Quality Department between 2001 and 2004. He was assigned as the Project Management and Quality Manager in 2005 and he continued his career as the Information Technologies Group Manager upon the new set-up in 2007. He has been serving as the Executive Vice President of Strategy since October 2012 as well as the Executive Vice President of Strategy, Human Resources, Digital Transformation, Corporate Communication and Corporate Performance Management while continuing to perform his duties at Katılım Emeklilik ve Hayat A.Ş. and Architech Bilişim Sistemleri ve Pazarlama Ticaret A.Ş. as a Board Member.



Bilal Sayın / Executive Vice President – Chief Credit Officer

Mr. Sayın graduated from the Public Administration Department of Middle East Technical University in 1990. He joined the Kuveyt Türk family in 1995 and he has been serving as the Chief Credit Officer at Kuveyt Türk since 2003.



Hüseyin Cevdet Yılmaz / Executive Vice President – Chief Risk Officer

Mr. Yılmaz graduated from the Business Administration Department of Boğaziçi University in 1989. He began his banking career as the Assistant Internal Auditor in Esbank Internal Audit and Inspection Department. After having served as Internal Auditor and Branch Manager in the same institution, he began his duty as the Head of Internal Audit and Inspection Department in Kuveyt Türk in September 2000. He was assigned as the Audit and Risk Group President in 2003. Mr. Yılmaz has been serving as the Chief Risk Officer since 2012.



İrfan Yılmaz / Executive Vice President – Banking Services

Mr. Yılmaz graduated from the Management Engineering Department of Istanbul Technical University in 1989. He began his banking career at the Financial Affairs Department in Kuveyt Türk in 1990, was assigned to Internal Audit and Inspection Department in 1996 and served as the Head of Internal Audit and Inspection Department between 1998 and 2000. Mr. Yılmaz worked as the Individual Banking Manager in 2000 and after five years at the Department, he was assigned as the Executive Vice President of Individual Banking and Enterprise Banking in 2005. He has been serving as the Executive Vice President of Banking Services since October 2012.

Senior Management



Mehmet Oral / Executive Vice President – Retail Banking

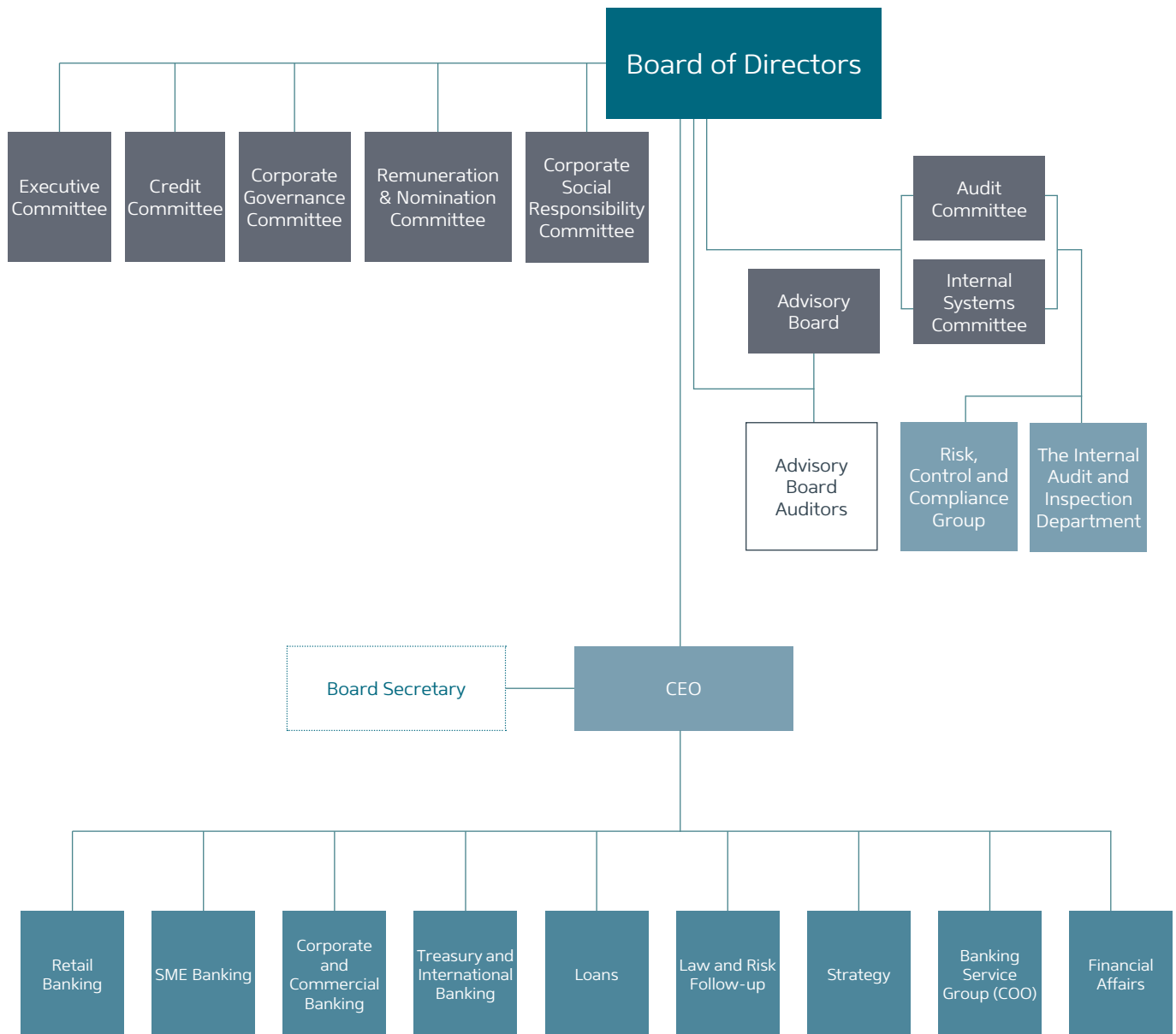
Mr. Oral graduated from the Business Administration Department of Uludağ University. He began his career in the Kuveyt Türk family at the Head Office Branch in 1992. He worked as the manager in the İMES, Bursa and Merter branches between 2000 and 2005. He was assigned as the Regional Manager at the Istanbul European Side Regional Directorate in 2005 after the transition to Regional Directorate structure. After serving as the Regional Manager for four years, he continued his career as the HR, Training and Quality Group Manager in 2009. He has been serving as the Executive Vice President of Retail Banking since October 2012.



Nurettin Kolaç / Executive Vice President – Law and Risk Follow-up

Mr. Kolaç graduated from Faculty of Law at Marmara University. He served as an attorney and legal counselor in banking, leasing and insurance industries for 16 years. He worked as the Vice Head of Department and Head of Department (Legal) in Banking Regulation and Supervision Agency for six years starting from 2004. He joined Kuveyt Türk in April 2010 as the Executive Vice President of Law and Risk Follow-up. Mr. Kolaç is also a Member of the Board of Directors at KT Portföy Yönetim A.Ş. as well as the chairman and member of several working committees in professional associations for the banking industry. With 30 years of experience in law and banking, Mr. Kolaç has been serving as the Executive Vice President of Corporate, Commercial, SME and Retail Risk Follow-up, Credit Risk Monitoring, Collateral Monitoring, Customer Rights and Legislation, and Law and Risk Follow-up.

Organizational Chart



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

Esteemed Shareholders,

2018 was a tough year, especially from the second half of the year due to FX rates, interests and inflation. Measures against soaring FX rates and interests helped circumvent their negative impacts considerably, and important steps were taken on the path to recovery. As of the third quarter of the year, firm steps taken by the Public Authority and the new monetary policy of the Central Bank of the Republic of Turkey (CBRT) marked the start of a normalization period.

The Turkish economy grew by 7.4% and 5.2% in the first and second quarters of 2018 respectively, while the growth in the third quarter was realized at 1.8%. The banking industry, one of the main pillars of Turkish economy, maintained its robust outlook in 2018 despite fluctuations in domestic markets as well as the global economy. Assets of the banking industry grew by 18.70% compared to the previous year, and total loans increased by 16.3% to TL 2,537 billion. Meanwhile, participation banks continued to grow in 2018 as they further bolstered their position in the industry and boosted their total assets by 29.1% and funds they extended by 16.4%.

Enjoying a robust international reputation, Kuveyt Türk maintains a consistent overseas growth through its 100% owned subsidiary KT Bank AG, in addition to its growth in Turkey by opening new branches.

Kuveyt Türk in 2018

Kuveyt Türk, the leading participation bank in Turkey offering innovative products and services, has maintained its growth in 2018 with a focus on profitability by effectively managing risks and opportunities while preserving the quality of its assets.

Undeterred by fluctuations in the Turkish economy, the Bank continued to offer its customers innovative projects such as the interest-free digital banking platform Senin Bankan or the XTM Branch combining functions of call centers, branches and ATMs, thus charting the course of participation banking through its groundbreaking initiatives.

Our Bank's net profit for 2018 grew by 29.1% year-on-year reaching TL 870 million; the funds raised by 35.5% reaching TL 53.9 billion; and the funds extended by %20.8 reaching TL 45.9 billion. Our equity rose to TL 5.4 billion, and assets to TL 74.2 billion, enabling the Bank to maintain its leading position among participation banks in terms of asset size.

Constantly introducing innovative products and services to the industry, Kuveyt Türk accomplished the following in this context in 2018:

- 27 lease certificates in the amount of TL 5.1 billion were issued.
- A TL 200 million worth of Sukuk was issued for Superonline İletişim Hizmetleri A.Ş. as part of the private sector's demand for lease certificate issuances.
- The Bank has consistently maintained investments in technology, with two R&D centers and the sector's most comprehensive API platform under its umbrella.
- It migrated banking transactions to a digital platform and continued to enhance its infrastructure by transforming processes and procedures digitally.
- The Bank provided funding for two national mega projects, namely EUR 200 million funding for Çanakkale 1915 Bridge Project and EUR 100 million for Niğde-Ankara Motorway Project.
- In addition to Public Private Partnership projects, it took on an active role in the field of renewable energy. The total financial support we provided for renewable energy reached USD 740 million.
- City Hospitals Projects have been emphasized and prioritized.
- Kuveyt Türk took on a pioneering role in FinTechs and sold a TL-120-million BOA software program through our technology firm Architech.
- The number of digital banking customers increased by 32% on a YoY basis, reaching almost 1 million.
- The Bank continued to collect gold to re-introduce the "under-the-mattress" gold stock to economy; 2.1 tons of gold were collected and started to circulate in 2018.
- CebimPOS app, which helps turn smart phones into POS devices to receive payments, was developed.

- The Online Finance System, allowing utilization of finance via Internet or Mobile Branch without having to visit a branch, was deployed.
- Supplier Finance practices were launched in order to address suppliers' finance needs while extending funds to buyers.
- Sign language banking efforts were initiated at XTM branches to help hearing-impaired individuals perform banking transactions easily.
- A FinTech integration process was launched in order to begin cooperation with the FinTechs, which were contacted via Lonca Entrepreneurship Center and various other channels.

Alongside all these innovations, Kuveyt Türk's achievements were crowned with new awards in 2018 as in previous years.

- Kuveyt Türk launched its new employer brand "So Glad" (İyi ki) during the 2018 operating period aimed at our human resource as one of the most crucial components of its sustainable success itinerary.
- Ranking in the list of 'Turkey's Best Employers in 2018', organized by the Great Place to Work Institute, the Bank placed in the top three in the 'Best Employer in Turkey' list in the "2,000+ Employees" category. The Bank also won the Special Award for Best Employer in Finance.
- Kuveyt Türk was named 'Turkey's Best Islamic Financial Institution' in the World's Best Banks, organized by Global Finance Magazine that enjoys a readership in 189 countries.
- Kuveyt Türk's 100% owned subsidiary, KT Bank AG based in Germany was selected the 'Best Islamic Financial Institution in Europe'.
- In IRBA, organized by the world's leading financial services organization Cambridge IFA, Kuveyt Türk was deemed worthy of the 'Strongest Islamic Bank in Turkey' award.

Customer-Focused Technology

- Appreciative of the importance of digitalization for the banking industry as well as Turkey's wider economy, Kuveyt Türk continuously pushes ahead with investments in this field. As of the year end in 2018, the number of customers on Senin Bankan application aimed at retail customers came to 98 thousand, while the number of customers using digital channels reached 950 thousand.
- As Kuveyt Türk, we aim to push forward with our digital transformation investments in the coming period, enabling more customers to take advantage of the digitalization process.
- By establishing the Digital Transformation Group Directorate in April 2018, Kuveyt Türk strengthened its digitalization focus across the Company.
- CebimPOS app was developed as a solution to help turn smartphones into POS devices in receiving payments, thereby offering Seamless Customer Experience in Digital Banking.
- Serving customers through a robust network at 414 branches across Turkey with nearly 6,000 employees, Kuveyt Türk established another 16 branches in 2018, achieving 85% geographic coverage in Turkey.

Expectations for 2019

As we celebrate our 30th birthday in 2019, Turkey's leading participation bank Kuveyt Türk will remain a bank offering modern, consistent, reliable, high quality and swift services; committed to continuous training and development in the coming period, as it did since its inception.

The plan is to accelerate customer-focused digital transformation efforts.

Kuveyt Türk aims to sustain the above-industry growth it achieved in key financial figures over the last five-year period, generating growth in the 18-19% range on average over the next five years, achieving an asset size of TL 170 billion and reaching 480 branches by 2023 to extend its geographical coverage from 85% to more than 90%.

We deeply thank all our stakeholders, particularly our employees, who exert the greatest effort that allow us to achieve all our success and look into the future with confidence, and our valuable shareholders for their unwavering support.

Board of Directors

Executives within Internal Systems

Name and Surname	Duties	Education
H. Cevdet Yılmaz	Chief Risk Officer	Bachelor's Degree
Bahattin Akça	Head of Internal Audit and Inspection	Bachelor's Degree
Fadıl Uluşık	Head of Internal Control	Master's Degree
Vefa Okan Arık	Head of Risk Management	Bachelor's Degree
Hayrettin Çapoğlu	Head of Compliance	Master's Degree

Hüseyin Cevdet Yılmaz Chief Risk Officer

Mr. Yılmaz graduated from the Business Administration Department of Boğaziçi University in 1989. He began his banking career as the Assistant Internal Auditor in Esbank Internal Audit and Inspection Department. After having served as Internal Auditor and Branch Manager at the same institution, he joined Kuveyt Türk in September 2000 as the Head of Internal Audit and Inspection Department. He was appointed as Head of Audit and Risk Group in 2003. Mr. Yılmaz has been serving as Chief Risk Officer since 2012.

Bahattin Akça Head of Internal Audit and Inspection

Mr. Akça graduated from (English) Business Administration Department at Istanbul University. He began his career as Deputy Inspector at Kuveyt Türk in 1996 at the Internal Audit and Inspection Department. Akça served as Head of Internal Control between 2003 and 2007. Since September 2007, he has been the Head of Internal Audit and Inspection.

Fadıl Uluşık Head of Internal Control

Mr. Uluşık graduated from Istanbul University, Faculty of Political Sciences. He received his post graduate degree on Money-Banking Department at the Social Sciences Institution of Istanbul University in 1999. Mr. Uluşık began his career in Kuveyt Türk in 1996 and he has been serving as the Head of Internal Control since December 2007.

Vefa Okan Arık Head of Risk Management

Mr. Arık graduated from Gazi University, Faculty of Economic and Administrative Sciences. Mr. Arık began his career in 1997 and joined Kuveyt Türk in 2002. Since February 2013, he has been the Head of Risk Management.

Hayrettin Çapoğlu Head of Compliance

Mr. Çapoğlu graduated from Boğaziçi University, Faculty of Economics and Administrative Sciences, Department of Political Science and International Relations in 1997. He received his postgraduate degree on International Relations at the Social Sciences Institution of Marmara University in 2002. Mr. Çapoğlu began his career in 1997 and joined Kuveyt Türk in 2002. Since February 2013, he has been serving as the Head of Compliance.

Senior Management Committees

Audit Committee

Name and Surname	Duties	Date of Assignment
Adnan Ertem	Chairman, Board Member	19.10.2010
Ahmad S. Al Kharji	Member, Board Member	24.09.2014
Mohamad Al Midani	Member, Board Member	15.05.2015

Duties and Responsibilities

- Receiving regular reports on the fulfillment of the duties from the units established under the scope of internal control, internal audit and risk management systems as well as independent auditors,
- In the event of matters or discrepancies arising against legislation and internal regulations which may adversely affect the continuity and safe execution of the Bank's activities, reporting these to the Board of Directors,
- Reporting its opinions along with the outcomes of its activities, to the Board of Directors on the practices required or measures to be taken by the Bank, and on other matters deemed significant in terms of sustaining the Bank's activities securely, within regular periods no longer than six months.

Internal Systems Committee

Name and Surname	Duties	Date of Assignment
Adnan Ertem	Chairman, Board Member	29.03.2007
Khaled Nasser Abdulaziz AL Fouzan	Member, Board Member	29.03.2007
Fawaz KH E Al Saleh	Member, Board Member	26.03.2014
Mohamad Al Midani	Member, Board Member	15.05.2015

Duties and Responsibilities

- Defining the strategies, policies and implementation methods for the operations of units under the internal systems in writing, and ensuring the effective implementation and execution thereof,
- Ensuring the coordination between the units under internal systems,
- Notifying the Board of Directors to take the necessary measures about errors or deficiencies in practices concerning internal systems as detected by the Banking Regulation and Supervision Agency (BRSA) or independent auditors,
- Evaluating errors or deficiencies detected and ensuring that control and internal audit activities are directed at areas where same or similar errors or deficiencies may occur.

Assets and Liabilities Committee

Name and Surname	Duties
Ufuk UYAN	President, Member of the Board of Directors, Chief Executive Officer
H. Cevdet Yılmaz	Member, Chief Risk Officer
A. Süleyman Karakaya	Member, Executive Vice President, Commercial Banking
R. Ahmet Albayrak	Member, Executive Vice President - Corporate and International Banking
Ahmet Karaca	Member, Executive Vice President, Audit
Bilal Sayın	Member, Executive Vice President, Loans
Mehmet Oral	Member, Executive Vice President, Commercial Banking
İrfan Yılmaz	Member, Executive Vice President, Banking Services
Nurettin Kolaç	Member, Executive Vice President - Law and Risk Follow-up
Aslan Demir	Member, Executive Vice President, Strategy
Abdurrahman Delipoyraz	Member, Executive Vice President, SME Banking
Ahmet Tarık Tüzün	Member, Group Manager, Treasury

Duties and Responsibilities

This is the senior management committee responsible for Bank's assets-liabilities and financial management. Meets weekly on a regular basis.

Participation in Committee Meetings

The Board of Directors meets when necessary in line with the Articles of Association and takes decisions based on requirements. The Board of Directors met seven times in 2018.

The Audit Committee tracks the Bank's audit and risk operations within the framework of legal regulations, especially the Banking Law, and takes actions on these. The Audit Committee met seven times in 2018.

The Internal Systems Committee meetings, aiming to manage the risks more efficiently and attended by managers of units within internal systems, were held for seven times in 2018.

The Loan Committee undertakes the duty of examining and approving the loans up to 10% of equities and met for seven times in 2018.

The Assets and Liabilities Committee, responsible for the financial management of the Bank and supervising its assets-liabilities balance met for 51 times in 2018.

Unless they had excuses, committee members were present at the meetings.

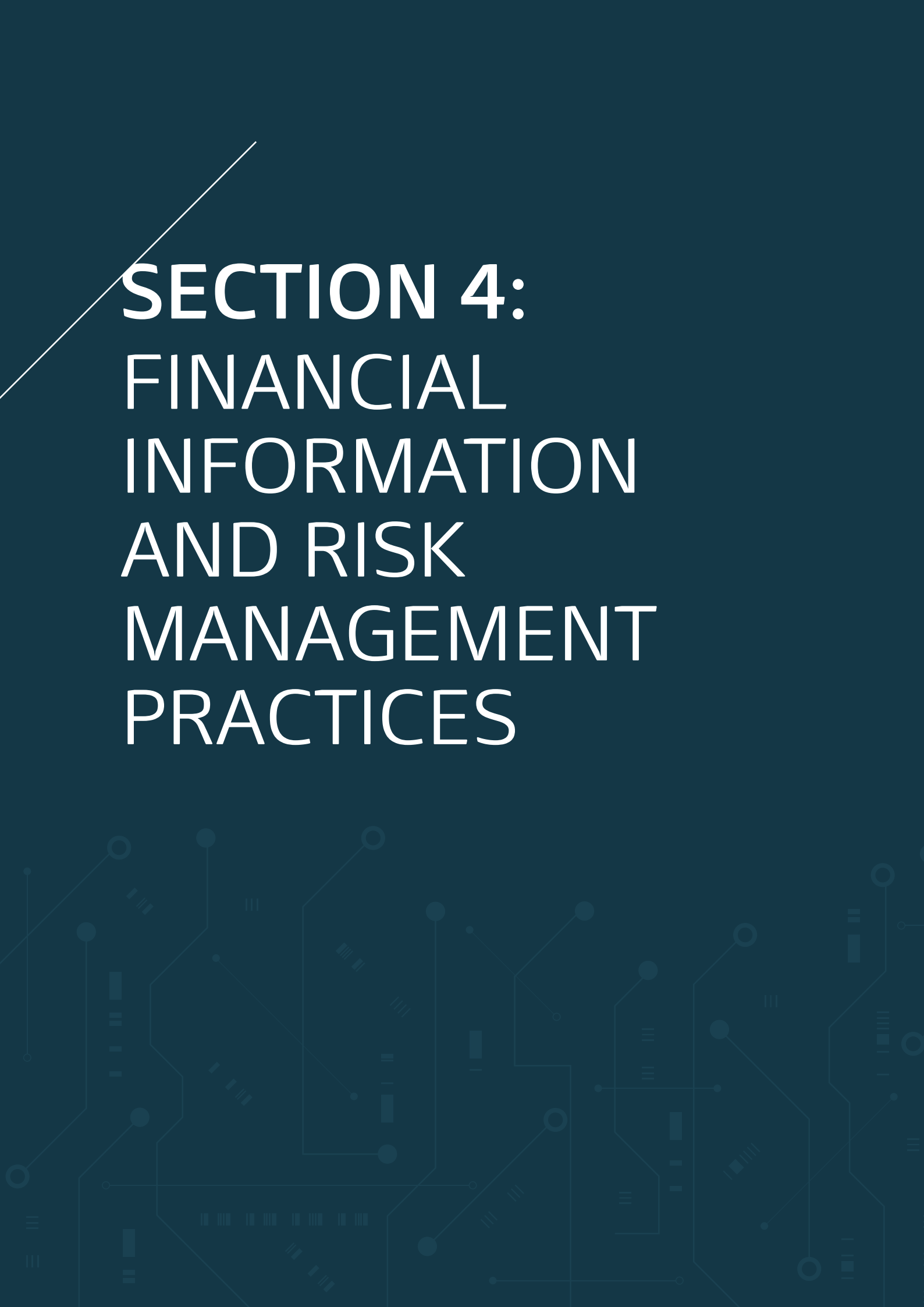
Related Party Transactions

Information about the risk group transactions where the Bank is involved are provided on pages 268 and 411 of the Annual Report.

Outsourced Services

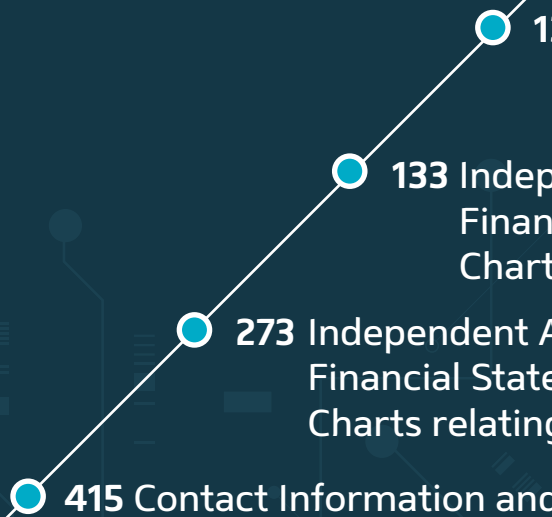
Brink's Güvenlik Hizmetleri A.Ş.	Provision of local and international transportation and storage services for precious metals and bank notes worth a maximum of USD 100 million
Kuryenet Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş.	Debit card and credit card distribution services
Bileşim Alternatif Dağıtım Kanalları ve Ekstre Ödeme Sistemleri A.Ş.	Printing and enveloping services with card customization and enveloping works
Chronos İstihdam Hiz. Yön. ve Yazılım Dan.Tic.Ltd.Şti. Tic. Ltd. Şti.	Provision of payroll services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Provision of ATM and credit card software infrastructure support services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Provision of credit card and merchant software infrastructure support services
İstanbul Altın Rafinerisi A.Ş.	Preparation of certified gram gold and ATM gold
Collection Platform Yaz. Dan. A.Ş. A.Ş.	Provision of call services to Bank's debtors
Komtaş Bilgi Yön. ve Dan. Tic. A.Ş.	Supply and maintenance services for financial control reporting (ACL) software
32 Bit Bilgisayar Hizm. Ltd. Şti.	Provision of software connection service with Reuters dealing system
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply and maintenance support for supplementary software product for improvements related to SWIFT
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply and maintenance service for SWIFT software for the Disaster Recovery Center
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply and maintenance of SWIFT supplementary software
Fineksus Bilişim Çözümleri Tic. A.Ş.	Provision of SWIFT Alliance software maintenance and support services
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply, maintenance and update services for AML software
Karash Yazılım Geliştirme ve Danışmanlık İthalat İhracat Ltd. Şti. Şti.	Outsourced IT staff hires
Loomis Güvenlik Hizmetleri A.Ş.	Provision of local and international transportation and storage services for precious metals and banknotes worth a maximum of USD 100 million
Bilişim Sanayi ve Ticaret Ltd. Şti.	Execution and operation services for payroll system
Desmer Güvenlik Hizmetleri Tic. A.Ş.	Providing cash/precious metal transportation services (including for ATMs and XTMs) worth a maximum of USD 100 millions
Call Center Resources Danışmanlık Ltd. Şti.	Provision of Interactive Intelligence Customer Interaction Center software license, maintenance and support services

G4S Güvenlik Hizmetleri A.Ş.	Provision of local and international transportation and storage services for precious metals and banknotes worth a maximum of USD 100 million
Aktif İletim Kurye Hizmetleri A.Ş.	Distribution of debit card and credit cards to customers, obtaining signatures from customers for contracts and delivery of related documents to the Bank
Kartega Yazılım ve Danışmanlık Ticaret Ltd. Şti.	Outsourced IT staff hires
Bilge Adam Bilgisayar ve Eğitim Hizmetleri Sanayi ve Ticaret A.Ş.	Outsourced IT staff hires
Nadir Metal Rafineri San. ve Tic. A.Ş.	Provision of Gold Bullion Conversion Service (conversion of large gold bullion to gold kilo bar)
Architech Bilgi Sist. ve Paz. A.Ş.	Software development, source rental and provision of consultancy services
Pil Eğitim Bilgi Mim. Tic. Ltd. Şti.	Employee Commitment and Communication Platform Implementation, Supply, Maintenance and Support Services
Banksoft Bilgi Bilgisayar Hiz. Ltd. Şti.	Central RLL developments, Beko payment device banking application and RLL developments and provision of device integration services
Telekurye Dağıtım ve Kurye Hizmetleri A.Ş.	Delivery of courier services for Senin Bankan channel
Medyasoft Danışmanlık ve Eğitim A.Ş.	Delivery of facial recognition system project
Maya Sosyal Hizmetler Dan. İnş.Tur. İth. İhr. San. Tic. Ltd. Şti.	Outsourced administrative staff hires
Key Yazılım Çözümleri A.Ş.	Supply and maintenance services for mortgage software
Key Yazılım Çözümleri A.Ş.	Supply and maintenance services for expert assessment software
Architech Bilgi Sistemleri ve Pazarlama Ticaret A.Ş.	Provision of digital security services to enhance the Bank's infrastructure, and block the phishing and malware attacks coming through internet and mobile banking
Call Center Resources Danışmanlık Ltd.	Licensing, supply and maintenance services for Genesys Call Centre Software
Netcore Bilgi Hizmetleri A.Ş.	Provision of Outsourced IT Staff Hires
Adeo Bilgi Danışmanlık Hizmetleri Sanayi ve Ticaret A.Ş.	Annual penetration testing service
Formalis Bilgi Teknolojileri A.Ş.	Delivery of maintenance, development and reporting requirements for Customer Service Management Program (Mi4Biz)
Kobil Bilgisayar Enerji ve Elektrik San. Tic. Ltd. Şti.	Provision of licensing, maintenance and repairs for STS
Simant Bilgi İşlem Sanayi ve Ticaret A.Ş.	Application, Development, Maintenance and Support Service for Credit Card and POS System
Desmer Güvenlik Hizmetleri A.Ş.	Transportation of Senin Bankan number-embossed Anonymous debit cards from Bileşim A.Ş.to Kuveyt Türk Banking Base
BTRİSK Bilgi Güvenliği ve Bilgi Teknolojileri Ltd. Şti.	Penetration Testing Service
32 Bit Bilgisayar Hizm. Şti.	Leasing, maintenance and support services for IBM Robotic Process Automation (RPA)
Miris Bilgi Teknolojileri Ltd. Şti.	Outsourced IT staff hires
Sestek Ses ve İletişim Bilgisayar San. Tic. A.Ş.	Licensing, Supply, Maintenance and Support Services for IVR, Voice Signature, Chatbot and Audio Analysis Software

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SECTION 4: FINANCIAL INFORMATION AND RISK MANAGEMENT PRACTICES

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Annual Report

Compliance Opinion

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT

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

1) Opinion

As we have audited the full set consolidated and unconsolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. ("the Bank") and its consolidated subsidiaries ("the Group") for the period between 01/01/2018-31/12/2018, we have also audited the annual report for the same period.

In our opinion, the consolidated and unconsolidated financial information provided in the Management's annual report and the Management's discussions on the Group's financial performance, are fairly presented in all material respects, and are consistent with the full set audited consolidated and unconsolidated financial statements and the information obtained from our audit.

2) Basis for Opinion

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is disclosed under Responsibilities of the Independent Auditor on the Independent Audit of the Annual Report in detail. We declare that we are independent from the Bank in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") issued by POA and ethical provisions stated in the regulation of audit. We have fulfilled other responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3) Auditor's Opinion for the Full Set Consolidated and Unconsolidated Financial Statements

We have presented unqualified opinion for the Bank's full set consolidated and unconsolidated financial statements for the period between 01/01/2018-31/12/2018 in our Auditor's Reports dated 26 February 2019 and 7 March 2019.

4) Management's Responsibility for the Annual Report

The Bank Management is responsible for the following in accordance with Article 514 and 516 of the Turkish Commercial Code No. 6102 ("TCC") and the regulation on "Preparing and Publishing the Annual Report by Banks" published in the Official Gazette dated 1 November 2006 and No. 26333 ("the Communiqué"):

- Preparing the annual report within the three months following the reporting date and presenting it to the General Assembly,
- Preparing the annual report with the all respects of the Bank's flow of operations for that year and the Bank's financial performance accurately, completely, directly and fairly. In this report, the consolidated financial position is assessed in accordance with the financial statements. The Bank's development and risks that the Bank may probably face are also pointed out in this report. The Board of Director's evaluation on those matters are also stated in this report.
- The annual report also includes the matters stated below:
 - The significant events occurred in the Bank's activities subsequent to the financial year ends,
 - The Bank's research and development activities,
 - The compensation paid to key management personnel and members of Board of Directors including financial benefits such as salaries, bonuses and premiums, allowances, travelling, accommodation and representation expenses, in cash and kind facilities, insurances and other similar guarantees.

The Board of Directors also considers the secondary regulations prepared by the Banking Regulation and Supervision Agency and the Ministry of Trade and related institutions while preparing the annual report.

5) Responsibilities of the Independent Auditor on the Independent Audit of the Annual Report

Our aim is to express an opinion and prepare a report about whether the Management's discussions and consolidated financial information in the annual report within the scope of the provisions of the TCC and the Communiqué are fairly presented and consistent with the information obtained from our audit.

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and the SIA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Management's discussions on the Group's financial performance, are fairly presented in all material respects, and are consistent with the full set audited consolidated and unconsolidated financial statements and the information obtained from our audit.

The engagement partner on the audit resulting in this independent auditor's report is Yaman Polat.

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



Yaman Polat
Partner

İstanbul, 12 March 2019

Review of the Audit Committee on Internal Systems

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

The Internal Audit Group has carried out its activities in 2018 in line with the requirements of its business plan and expectations of stakeholders. These activities has involved special examinations, legal/administrative investigations and consultancy in the required circumstances and fields. In the scope of Management Declaration Audit, a comprehensive assessment of general information system controls and business controls with regard to their efficiency, adequacy and compliance has been conducted. These assessments has provided a sound basis for the Management Declaration, which should be submitted to Independent Supervision Agency by Board of Directors in line with the legal regulations.

Actions related to the internal audit reports prepared throughout the year have been followed up in line with the Internal Audit Group's follow up policies and the results have been presented to the related internal audit customers in required circumstances. Moreover, a brief summary of internal audit reports, general evaluations and other information about the activities of Internal Audit Group have been quarterly submitted to the Audit Committee, Internal Systems Committee and Board of Directors. These reports have also been sent to BRSA.

The Internal Control Department is in charge of the internal control function within the Bank. Internal Control System has been established adequately and effectively to cover all of the activities and all domestic and foreign branches, headquarters units and subsidiaries compatible within the scope of bank's activities and organizational structure and according to changing conditions in order to reduce, manage, monitor and provide controlling the risks faced by the Bank. Bank's internal control system and internal control activities are designed and carried out adequately and effectively by the Internal Control Department and the relevant Senior Managers.

In line with the Bank's strategic targets and policies and in accordance with the internal/external regulations and international standards, Internal Control Department organized its activities into four different groups: "Branches and Regions Internal Control," "Head Office And Internal Control," "Independent Audit Coordination and Subsidiaries Internal Control" and "Central Internal Control and Business Development. Designed to support specialization on the basis of business lines, this realignment increased the efficiency, proficiency and compliance of operations and control systems through continuous controls. Within the scope of 2018 Control Program, the Bank's various business lines, units, branches, processes, new products, services and analyses documents were continuously analyzed, monitored and the results were reported to the senior management with a proactive and dynamic approach as well as adapting the materiality criteria and risk-focused approach. Besides, the Internal Control Department actively participated to Process Modeling and Analysis Projects. As part of these efforts, the Internal Control Department analyzed processes together with the relevant business units, identified any potential risks to the processes, designed and established controls to counter these risks, contributed to the reducing risks and the creation, development of the internal control environment and systems across the Bank. All information about the activities of Internal Control Department have been quarterly submitted to the Audit Committee, Internal Systems Committee and Board of Directors.

Review of the Audit Committee on Internal Systems

Risk Management Department effectively undertook the tasks of ensuring that the risks faced by the Bank are identified, measured, monitored and managed in 2018.

Credit Risk Management and Modelling Directorate continues its activities in realm of establishing and improving a strong infrastructure for risk management systems in order to execute risk management activities within the context of Credit Policy and Credit Risk Policy effectively. The internal credit risk limits determined with the Board of Directors' decision are measured, and presented to the Auditing Committee through periodical reports. Endeavour continues to develop internal rating models in order to use our bank's own estimated risk parameters for the purpose of calculating regulatory capital. PD scores of our internal models will be taken into consideration in risk management, marketing activities, credit allocation decision, credit risk monitoring, credit risk follow-up, capital management and corporate governance. They will play an essential role in all of these activities.

IFRS-9 Financial Standards came into effect as of 1 January 2018. The IFRS-9 oriented works throughout the Bank in order to meet the requirements of the Standard were managed by Credit Risk Management and Modelling Directorate in coordination with our main shareholder KFH. In 2018, the performance of the existing rating models were monitored and revisions were made in the models where necessary and modeling efforts were continued by focusing on LGD and EaD modeling. The validation process of the existing models for the three main components of the expected credit loss calculation (PD, LGD and EaD) for both IFRS 9 and the IRB Approach were initiated in 2018.

The efforts have been initiated to establish models for the measurement and management of credit risk within the framework of early warning systems in order to take timely actions regarding the customers who have a significant increase in the credit risk which will be the trigger of the stage transitions in the scope of IFRS-9. In this context, the development of the Early Warning System, which was decided to be established in coordination with the Risk Monitoring, Credit Origination and Marketing sectors, continued in 2018.

The BRSA issued several Guidelines. The level of compliance with these guidelines were determined and endeavor continues to increase the level of compliance in coordination with the relevant business units.

Market risk is periodically reviewed by the Bank's Audit Committee and Internal Systems Committee and reported to BRSA monthly. Market risk weighted assets are calculated in accordance with the Basel III standard method.

Bank's Internal Capital Adequacy Assessment Report for 2017 was prepared on consolidated and unconsolidated basis in order to assess the capital adequacy of the Bank in normal and stress periods and was submitted to BRSA. Periodic stress tests and scenario analysis were performed and presented in the Audit Committee and Internal Systems Committee meetings. In addition, market risk, counterparty credit risk and liquidity risk stress tests were implemented simultaneously and on monthly basis. Monthly report which includes the Bank's asset liability management, market and liquidity risks, investments and other topics has been shared with senior management and our main shareholder KFH. Sukuk and other investment portfolio have been monitored regularly, reported to the Audit Committee and our main shareholder KFH. In addition, the works of the risk appetite of the Bank, early warning system consisting of economic indicators related to the fiscal, monetary and financial system in Turkey and the world overall, moreover the economic and financial analysis developed in accordance with Kuwait Central Bank requirements and conducted within the framework of CAMELBCOM approach were reported to our main shareholder KFH on quarterly basis.

Within the framework of operational risk activities, the Bank's operational risk loss data is stored in a systematic way and in accordance with Basel III standards. Operational risk concentrations were monitored actively by adopting a terminology appropriate to Basel III and reported to Audit Committee. In Risk Control Self-Assessment studies, workshops are arranged as a tool to assess risks in the Bank's activities and processes against potential operational risk vulnerabilities and operational risk team attended these workshops. Additionally, studies were conducted to comply with the operational risk best practice guidelines published by the BRSA and the internal regulations of operational risk were revised and republished accordingly. Moreover, Risk Management Department actively involved in the activities required by the Regulation on Support Services, Risk Management Program for Support Services was revised and submitted to the Board of Directors.

In the framework of Basel III regulations, credit risk weighted assets are calculated according to the standard method and reported to the BRSA monthly on unconsolidated and consolidated basis. Capital adequacy ratio is also calculated and reported to the BRSA by the Risk Management Department. The Risk Report Set, which contains detailed information on all the transactions subject to Credit Risk Weighted Assets calculation, is prepared monthly.

Disaster Recovery Center Test was completed successfully in December within the scope of Business Continuity. In order to determine criticality levels of the Bank's processes, business impact analysis studies have been performed. The Bank's incident response and business continuity plans are updated and department specific plans are formed.

Compliance Department conducts activities in order to ensure that compliance risk is effectively managed and kept under control, the risks are prevented before realization and Bank's operations are continuously carried out accordingly and in compliance with the relevant legislation and regulations.

Changes in regulations concerning Bank's activities are continuously analyzed and updating Bank operations in accordance with these changes is monitored and reported. Compliance status of the foreign branches and consolidated subsidiaries are monitored.

All activities, products and transactions that are currently provided or in development are monitored for compliance with Banking Law and other relevant regulations, Bank policies, rules and Banking practices.

Efforts to ensure compliance of Bank's activities with the anti-money laundering and combating the finance of terrorism regulations are carried out, Bank policies and procedures are established, risk management, monitoring and control activities are performed with a risk-based approach and identification, follow-up and reporting of suspicious activities to the relevant official authority are performed. Training programs for increasing awareness and knowledge of the employees regarding relevant regulations are organized.

Adnan ERTEM
Audit Committee Chairman

Ahmad S. AL-KHARJI
Audit Committee Member

Mohamad AL MIDANI
Audit Committee Member

Assessment on Financial Status, Profitability and Solvency

Kuveyt Türk Participation Bank's total assets increased 30% and reached TL 74.2 billion and equities rose 18.5% and reached TL 5.4 billion. Concordantly, Bank's capital adequacy ratio reached above the legal requirement at 17.68%. The Bank continues to increase its profit by using its resources efficiently and productively. Information on financial situation, profitability and solvency can be seen in the financial statements and independent audit report.

Ratings of Kuveyt Türk by International Rating Agencies

Rating notes and content given by the rating agencies authorized in line with the Regulation on Principles for the Authorization and Transactions of Rating Agencies are given below.

Fitch Ratings - October 2018	Ratings
Long-term Foreign Currency	BB-
Short-term Foreign Currency	B
Long-term Local Currency	BB
Short-term Local Currency	B
Support Rating	3

Information on Risk Management Policies

Loan Risk Management Policy And Procedures

It is essential that Bank's Senior Management should manage and monitor loan risk policies by considering legal regulations. Within the scope of loan risk policy;

- Strategy,
- Loan risk management process,
- Limit allotment principles,
- Internal risk limits,
- Concentration risk management,
- Country and transfer risk management,
- Loan risk reports,
- New products and services and
- Risk monitoring, control and improvement

transactions are executed.

Within this scope, periodic reports are prepared for the research of new techniques and practices for measuring, monitoring and control of undertaken loan risks in loan transactions and risks defined within the legal and Bank's internal risk limits, tracking non-performing receivables, analyzing the reasons for delay and taking necessary measures.

Board of Directors determined the risk appetite of the Bank via risk type based internal risk limits based on the Bank's risk taking capacity.

Various analysis and reports are generated for the Bank's portfolio within internal risk limits. Risk management transactions regarding the monitoring and management of loan risk based on country, concentration, maturity, industry, default rate, legal status, assurances, geography, currency type are performed and Audit Committee is informed with the regular reports prepared for the Bank portfolio within the internal risk limits.

Market Risk Management Policies and Procedures

Kuveyt Türk executes its risk management transactions under the responsibility of the Board of Directors in compliance with the legal regulations. For this reason, market risk management transactions are regulated within legal regulations.

Implementing the Risk Management Strategy, Policy and Practice Methods approved by the Board of Directors, providing timely and safe reporting on important risks faced by the Bank and evaluating the risk reports, taking predicted and necessary measures and participating the process of defining risk limits are the responsibilities of the Senior Management.

Risk policies and implementation methods defined for the market risk that the Bank is exposed to be approved by the Board of Directors and reviewed regularly. Market risk is managed by defining, measuring, limiting, reporting of possible risks to be faced by the Bank due to existing market conditions in line with international standards and reserving capital accordingly as well as decreasing risks with protective processes.

In line with the Risk Strategy document it is made sure the Bank has sufficient capital and liquidity to continue its operations under all circumstances and that these are maintained at a reasonable level.

Defining written limits for the digitized risks resulting from the Bank's transactions that are subject to market risk, monitoring risks undertaken by the Bank and risk limits, tracking limit excesses are performed with Treasury Liquidity and Market Risk Policy, Asset and Liability Policy, and Liquidity Risk Policy. It is substantial that the processes are executed within defined limits and Bank's risk tolerance is considered while defining the limits.

Information on Risk Management Policies

Acceptable risk level of treasury transactions is defined as the customer limits, dealing limits, allowed transactions, counter party limits and country risk limits. Establishment of necessary tracking and control procedures in order to ensure regulatory compliance and prevent unacceptable situations are determined with the principles of this policy.

It is essential that the limits are defined as risk based. Besides nominal amounts based on monetary magnitude, these limits can be also the proportional limits based risk measurement results such as the percentage of the amount subject to average risk, percentage of risk weighted assets or concentration based limits including sectoral or debtor based limitations.

Risk limits are established within the limits put on related matters approved by the Bank in all risk categories within the regulations and principle of significance. Also, implementation principles on actions to be taken if early warning limits are defined and these limits are exceeded are defined by the Board of Directors.

Kuveyt Türk's market risk management and guiding limits and informative reports system used for this purpose are based on the principles below;

- Ensuring that risk management transactions work efficiently and securely,
- Ensuring that the Bank undertakes risks in line with its risk taking capability and capacity and
- Risk taking limits are managed in line with the risky markets and risk taking capacities of the Bank's related departments.

Operational Risk Management Policy And Procedures

Processes of defining, evaluating, monitoring, controlling and decreasing the operational risks faced by the Bank are executed under the supervision of the Board of Directors and Internal Systems Committee.

Policies and implementation methods defined within operational risk management, is provided for employees on the job training and effective internal control mechanisms ensure that business units have the risk management point of view and the integration of the operational risk management culture in all units and transactions. Within this scope, each unit and employee should understand their transactions and position within the operational risk management and be aware of their authorities and responsibilities.

Risk, Control Self-Evaluation Policy was established in order to make I) self-assessment of the of the Bank regarding operational risks II) evaluation of the potential threats arising from operational processes and activities, and assessment of the weaknesses of the Bank against these threats III) analysis of the potential negative impacts of such threats and weaknesses on the Bank.

Works are performed on all kinds of operational risk types that the Bank is subject to and quality of corrective actions for such risks and risk decreasing transactions are evaluated in order to allow the determination of problems before the occurrence of substantial losses for the Bank. In this regard, operational risk events above the defined threshold value and detailed information of such events are recorded; at the same time Risk Control Matrix works are performed to define the potential operational risks.

Five-Year Summary Financial Information

(TL Thousand)	2014	2015	2016	2017	2018
Profit Sharing Income	2,018,781	2,564,838	3,110,435	3,850,986	5,997,843
Profit Sharing Expense	877,547	1,096,026	1,440,566	1,716,773	2,850,053
Net Fee and Commission Income	133,895	133,942	152,970	241,002	349,546
Other Revenues	294,571	368,203	469,153	477,101	1,111,204
Other Expenses	1.106.961	1.417.481	1.628.780	2,003,383	3,482,483
Tax Charge	(92,289)	(108,795)	(121,246)	(174,942)	(256,245)
Net Profit for the Period	370,450	444,681	541,966	673,991	869,812
Total Assets	34,008,175	42,052,507	48,476,955	57,123,095	74,232,325
Total Shareholders' Equity	3,022,870	3,402,490	3,912,064	4,591,151	5,438,553
Capital Adequacy Ratio (%)	15.09	14.23	18.16	17.66	17.68

KUVEYT TRK KATILIM BANKASI A..

UNCONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR
ENDED 1 JANUARY-31 DECEMBER 2018 WITH INDEPENDENT AUDITOR’S
REPORT

(CONVENIENCE TRANSLATION OF UNCONSOLIDATED FINANCIAL STATEMENTS,
RELATED DISCLOSURES AND FOOTNOTES ORIGINALLY ISSUED IN TURKISH)



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INDEPENDENT AUDITOR'S REPORT

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of Kuveyt Türk Katılım Bankası A.Ş. ("the Bank"), which comprise the balance sheet as at 31 December 2018, and the statement of income, statement of income and expense items accounted under shareholders' equity, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with "the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Regulations" including the regulation on "The Procedures and Principles Regarding Banks' Accounting Practices and Maintaining Documents" published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Financial Reporting Standards for the matters not legislated by the aforementioned regulations.

2) Basis for Opinion

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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
Adoption of TFRS 9 Financial Instruments Standard for the first time and explanations on the the impairment of financial assets	
<p>As of 1 January 2018, the Bank has adopted "TFRS 9: Financial Instruments" which was published in the Official Gazette dated 19 January 2017 and numbered 29953 by the Public Oversight Accounting and Auditing Standards Authority, to replace "TAS 39 Financial Instruments: Recognition and Measurement" .</p> <p>TFRS 9 Financial Instruments Standard consists of three phases: Phase 1 – Classification and measurement of financial assets and financial liabilities; Phase 2 – Expected credit losses Phase 3 – Hedge accounting</p> <p>TFRS 9 is an accounting standard with a new and complex design and implementation that requires considerable judgment and interpretation in practice.</p> <p>The classification of financial instruments is based on the business model used by the Bank and the contractual cash flows with adoption of TFRS 9.</p> <p>The expected loan losses are calculated by using historic loss experience, current conditions and prospective macroeconomic models. The Bank has developed new and complex models that require data from more than one system to calculate the expected loss provision and determine a significant increase in credit risk.</p> <p>The reason we focus on this area during our audit is; the significance of expected credit loss provision and loans within the balance sheet, classification of these loans within the framework of TFRS 9 and to determine the significant increase in credit default and credit risk accurately and timely and the expected loss provision accurately.</p> <p>The reason of being this area is selected as a key audit matter is that the classification, measurement and calculation of expected credit losses are considered as the key control subject due to the inclusion of important estimation, assumption and management judgments as mentioned above and also because of the complex structure of the model.</p> <p>The impact of the first application of TFRS 9 and relevant disclosures are presented in Section 3 Part 1.2 in the accompanying unconsolidated financial statements.</p> <p>The Bank has elected to continue to apply the hedge accounting requirements of TAS 39.</p>	<p>As part of our audit work, the following procedures were performed:</p> <p>The Bank's TFRS 9 policy of the classification of financial assets and financial liabilities has been read and compared with the TFRS 9.</p> <p>We have examined the Bank's classification and measurement models of the financial instruments and compared them with the requirements of TFRS 9 standard.</p> <p>We have tested the appropriateness of criteria in order to identify the financial assests having solely payments of principal and interest and checking the compliance to the Bank's Business model.</p> <p>The appropriateness of the opening balance adjustments and the disclosures presented were checked.</p> <p>Testing the appropriateness of new or re-structured processes which are used to calculate expected credit losses by involving our Information Technology and Process audit specialists.</p> <p>The processes, systems and controls created or reorganized to calculate expected credit losses are reviewed and tested by our Information Systems and Processes auditors.</p> <p>Within the framework of TFRS 9, we have carried out review procedures for loans selected on the basis of samples to determine whether the classification by credit risk is reasonable, whether it is impaired, and whether the provision for impairment of the receivable is established in a timely manner and in accordance with the provisions of the new legislation.</p> <p>We have performed loan review on a selected sample of loans with the objective to identify whether the classification of loans is performed appropriately in line with TFRS 9 staging rules, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the TFRS 9 framework.</p> <p>Testing the appropriateness of the methods used in calculation of expected credit loss, significant increase in credit risk, default amount and significant assumptions on macroeconomic variables together with our risk modelling experts. We have tested model calculations through sampling together with our modelling specialists.</p> <p>In the framework of the discussions with the Bank's management, we have evaluated whether the underlying assumptions and other judgments that constitute the basis for the impairment calculations are reasonable.</p> <p>We have reviewed disclosures made within the TFRS 9 framework in the financial statements of the Bank with respect to loan and receivables and related impairment provision.</p>

Deloitte.

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

4) Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our objectives are to obtain reasonable assurance about whether the 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 the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and SIA 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 financial statements.

As part of an audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current period 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.

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Bank's set of accounts for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Bank's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Yaman Polat.

Additional Paragraph for English Translation

The effect of the differences between the accounting principles summarized in Section 3 and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Bank's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

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



Yaman Polat
Partner

İstanbul, 26 February 2019

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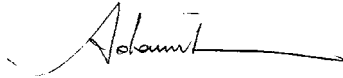
**THE UNCONSOLIDATED FINANCIAL REPORT OF
KUVEYT TÜRK KATILIM BANKASI A.Ş.
AS OF 31 DECEMBER 2018**

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Phone number and Facsimile number : 0212 354 11 11 - 0212 354 12 12
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The unconsolidated financial report for the year ended designed in line with the Banking Regulation and Supervision Agency's official communication on Financial Statements to be Publicly Announced and the Related Policies and Disclosures consists of the sections listed below:

- General information about the participation bank
- Unconsolidated financial statements of the participation bank
- Explanations on accounting policies
- Information on financial structure of the bank and risk management of the bank
- Footnotes and explanations on unconsolidated financial statements
- Other explanations
- Independent auditors' report

The accompanying unconsolidated financial statements and notes have been prepared based on the accounting books of the Bank in accordance with the Regulation on Accounting Applications for Banks and the Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and, unless otherwise indicated, have been prepared in thousands of Turkish Lira. Related appendices and interpretations on these are independently audited and presented hereby.



Adnan ERTEM
Vice Chairman of BOD
And Head of the Audit Committee




Ahmad S A A AL KHARJI
Member of the Audit Committee



Mohamad AL-MIDANI
Member of the Audit
Committee



Ufuk UYAN
General Manager



Ahmet KARACA
Chief Financial Officer



İsmail Hakkı YEŞİLYURT
External Reporting
Manager

Contact information of the personnel in charge of the addressing of questions about this financial report:

Name-Surname: İsmail Hakkı YEŞİLYURT
Position: External Reporting Manager
Telephone: 0212 354 12 84
Facsimile: 0212 354 11 03

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION ONE GENERAL INFORMATION

1. History of the Bank including its incorporation date, initial legal status and amendments to legal status

Kuveyt Türk Katılım Bankası A.Ş. ("The Bank") was incorporated with the approval of the Central Bank of the Republic of Turkey (CBRT) on 28 February 1989 and commenced its operations on 31 March 1989, with the name of Kuveyt Türk Evkaf Finans Kurumu A.Ş. To comply with the Banking Act 5411, the title of the Bank has been changed to Kuveyt Türk Katılım Bankası A.Ş. with a change in the Articles of Association which was approved in the annual general meeting dated 26 April 2006. Main field of operation is, in addition to the Bank's equity, to collect funds from domestic and foreign customers through "Current Accounts" and "Profit/ Loss Sharing Accounts" and allocate such funds to the economy, to perform all kinds of financing activities in accordance with the regulations, to encourage the investments of all individuals and legal entities operating in agricultural, industrial, trading and service industries, participating into the operations of these entities or individuals and to form joint business partnerships and to perform all these activities in a non-interest environment.

2. Shareholding structure, shareholders jointly or individually having direct or indirect, control over the management and supervision of the Bank and the disclosures on any related changes in the current period, if any and information about the Group that the Bank belongs to

As of 31 December 2018, 62.24% of the Bank's shares are owned by Kuwait Finance House located in Kuwait, 18.72% by Vakıflar Genel Müdürlüğü Mazbut Vakıfları, 9.00% by The Public Institution For Social Security in Kuwait and 9.00% by Islamic Development Bank whereas the remaining 1.04% of the shares are owned by other real persons and legal entities.

3. Explanations on the Titles of Chairman and Members of the Board of Directors, Members of the Audit Committee, General Managers and Assistant General Managers and Their Shareholdings in the Bank

Name	Title	Date of the assignment	Date of Audit Committee assignment	Educational degree	Ownership Percentage
Hamad Abdulmohsen AL MARZOUQ	Head of the BOD	25/06/2014		Master	-
Dr. Adnan ERTEM	Vice Chairman of the BOD and Head of the Audit Committee	10/10/2002	19/10/2010	Doctorate	-
Nadir ALPASLAN	Member of BOD	15/04/2011		Bachelor	-
Khaled Nasser Abdulaziz AL FOUZAN	Member of BOD	02/08/2006		Bachelor	-
Fawaz KH E AL SALEH	Member of BOD	20/10/2006		Bachelor	0.0105%
Mazin S.A.S AL NAHEDH	Member of BOD	29/09/2015		Bachelor	-
Mohamad AL-MIDANI	Member of BOD and Audit Committee	05/05/2015	15/05/2015	Master	-
Ahmed S. AL KHARJI	Member of BOD and Audit Committee	26/03/2014	24/09/2014	Master	-
Ufuk UYAN	Member of BOD and General Manager	10/05/1999		Master	0.0556%
Ahmet KARACA	Assistant General Manager and Chief Financial Officer	12/07/2006		Master	0.0002%
Ahmet Süleyman KARAKAYA	Assistant General Manager, Corporate and Commercial Banking	14/01/2003		Bachelor	-
Bilal SAYIN	Assistant General Manager, Lending	20/08/2003		Bachelor	0.0035%
İrfan YILMAZ	Assistant General Manager, Banking Services	27/10/2005		Bachelor	0.0161%
Dr. Ruşen Ahmet ALBAYRAK	Assistant General Manager, Treasury and International Banking	05/05/2005		Doctorate	0.0091%
Nurettin KOLAÇ	Assistant General Manager, Legal and Risk Follow Up	20/04/2010		Bachelor	0.0007%
Aslan DEMİR	Assistant General Manager, Strategy	08/10/2012		Bachelor	0.0047%
Mehmet ORAL	Assistant General Manager, Retail Banking	01/10/2012		Bachelor	0.0029%
Abdurrahman DELİPOYRAZ	Assistant General Manager, SME Banking	09/01/2015		Bachelor	0.0028%

Chairman and members of the Board of Directors, members of auditing committee, general manager and assistant general managers own 0.11% of the Bank's share capital (31 December 2017 - 0.11%).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

4. Information on qualified shareholders

Name / Commercial Name	Share amount (Nominal)	Shareholding percentage	Paid shares (Nominal)	Unpaid shares
Kuwait Finance House	2,178,444	%62.24	2,178,444	-
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	655,174	%18.72	655,174	-
Total	2,833,618	%80.96	2,833,618	-

As of 31 December 2018, the shares of parent shareholder of Bank, Kuwait Finance House ("KFH") are 51.95% publicly traded; 24.08% of KFH belongs to Kuwait Investment Authority and 10.48% belongs to Public Authority for Minors Affairs.

5. Explanations of the Bank's services and field of operations

The Bank's field of operations includes corporate banking, international banking services, and retail banking and credit card services. 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 lending such funds to its customers. As of 31 December 2018, the Bank is operating through 414 branches (31 December 2017 – 399) with 5,871 employees (31 December 2017 – 5,749). Summary of some of the Bank's operations described in the Articles of Association are as follows:

- To collect funds through Current Accounts and Profit/Loss Sharing Accounts and special fund pools in line with the regulations,
- To allocate funds to the economy and provide all kinds of cash, non-cash loans within the principles of non-interest banking,
- To offer financial and operational leasing,
- To handle all kinds of deposits and payments, including travelers' checks, credit cards and other payment instruments, provide member business services (POS), consulting, advisory, and safe deposit box services,
- To purchase financial instruments on money and capital markets in cash or installments, sell and mediate the sale and trade on the stock exchange in accordance with legislation and principles of non-interest banking,
- To purchase, acquire and construct any kind of real estate and if necessary lease or transfer ownership to other persons,
- To act as a representative, deputy or agent for corporations and enterprises (including insurance companies),
- To provide socially responsible aid for the benefit of the Bank in line with the legislations.

The Bank's activities are not limited to the list above. If another transaction is decided to be beneficial to the Bank, the transaction must be recommended by the Board of Directors, approved by the General Assembly and authorized by relevant legal authorities after whom it also needs to be approved by the Ministry of Customs and Trade since it constitutes an amendment of the Article of Association. Decisions that have been approved through all these channels will be included to the Article of Association.

6. Current or likely actual legal barriers to immediate transfer of equity or repayment of debts between Parent Bank and its subsidiaries

None.

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

- I. Balance Sheet (Statement of Financial Position)
- II. Statement of Off-Balance Sheet Items
- III. Income Statement (Statement of Profit/Loss)
- IV. Statement Of Income/ Expense Items Accounted Under Shareholders' Equity (Other Comprehensive Income/Loss)
- V. Statement of Changes in Shareholders' Equity
- VI. Statement of Cash Flows
- VII. Statement of Profit Distribution

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1. BALANCE SHEET – ASSETS (STATEMENT OF FINANCIAL POSITION)

		Audited Current Period 31.12.2018	
	Note	TL	FC
			Total
I. FINANCIAL ASSETS (Net)		3,639,236	19,911,720
1.1 Cash and Cash Equivalents		1,197,845	15,657,891
1.1.1 Cash and Balances with Central Bank	(5.1.1)	1,183,109	9,252,979
1.1.2 Banks	(5.1.3)	14,736	6,404,912
1.1.3 Money Markets		-	-
1.2 Financial Assets at Fair Value Through Profit or Loss		292,978	96,168
1.2.1 Government Debt Securities		18,327	11,770
1.2.2 Equity Instruments		-	-
1.2.3 Other Financial Assets		274,651	84,398
1.3 Financial Assets at Fair Value Through Other Comprehensive Income	(5.1.4)	2,164,849	4,231,216
1.3.1 Government Debt Securities		2,065,421	3,804,519
1.3.2 Equity Instruments		10,502	17,046
1.3.3 Other Financial Assets		88,926	409,651
1.4 Financial Assets Measured at Amortised Cost	(5.1.6)	-	-
1.4.1 Government Debt Securities		-	-
1.4.2 Other Financial Assets		-	-
1.5 Derivative Financial Assets	(5.1.2)	29,483	12,528
1.5.1 Derivative Financial Assets at Fair Value Through Profit or Loss		29,483	12,528
1.5.2 Derivative Financial Assets at Fair Value Through Other Comprehensive Income		-	-
1.6 Non-Performing Financial Assets		-	-
1.7 Expected Loss Provision (-)		45,919	86,083
II. LOANS (Net)	(5.1.5)	31,038,014	14,827,277
2.1 Loans		30,078,505	14,090,063
2.1.1 Loans Measured at Amortised Cost		30,077,773	14,049,966
2.1.2 Loans at Fair Value Through Profit or Loss		732	40,097
2.1.3 Loans at Fair Value Through Other Comprehensive Income		-	-
2.2 Lease Receivables	(5.1.10)	1,439,955	1,010,744
2.2.1 Finance Lease Receivables		1,690,854	1,191,038
2.2.2 Operational Lease Receivables		-	-
2.2.3 Unearned Income (-)		250,899	180,294
2.3 Factoring Receivables		-	-
2.3.1 Measured at Amortised Cost		-	-
2.3.2 Fair Value Through Profit or Loss		-	-
2.3.3 Fair Value Through Other Comprehensive Income		-	-
2.4 Non-Performing Loans		1,159,974	19,793
2.5 Expected Credit Losses (-)		1,640,420	293,323
2.5.1 12-Month Expected Credit Losses (Stage I)		297,335	139,863
2.5.2 Significant Increase in Credit Risk (Stage II)		504,576	150,913
2.5.3 Credit-Impaired Losses (Stage III / Special Provision)		838,509	2,547
III. PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(5.1.16)	270,382	-
3.1 Held For Sale		270,382	-
3.2 Related to Discontinued Operations		-	-
IV. EQUITY INVESTMENTS		547,950	-
4.1 Investments in Associates (Net)	(5.1.7)	-	-
4.1.1 Associates Valued Based on Equity Method		-	-
4.1.2 Unconsolidated Associates		-	-
4.2 Subsidiaries (Net)	(5.1.8)	522,950	-
4.2.1 Unconsolidated Financial Subsidiaries		499,270	-
4.2.2 Unconsolidated Non-Financial Subsidiaries		23,680	-
4.3 Joint Ventures (Net)	(5.1.9)	25,000	-
4.3.1 Joint Ventures Valued Based on Equity Method		25,000	-
4.3.2 Unconsolidated Joint Ventures		-	-
V. TANGIBLE ASSETS (Net)	(5.1.12)	688,685	203
VI. INTANGIBLE ASSETS (Net)	(5.1.13)	136,931	48
6.1 Goodwill		-	-
6.2 Other		136,931	48
VII. INVESTMENT PROPERTIES (Net)	(5.1.14)	25,305	-
VIII. CURRENT TAX ASSETS		-	-
IX. DEFERRED TAX ASSETS	(5.1.15)	346,640	-
X. OTHER ASSETS	(5.1.17)	817,583	1,982,351
TOTAL ASSETS		37,510,726	36,721,599
			74,232,325

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

			Audited Prior Period 31.12.2017	
	Note	TL	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	(5.1.1.)	625,022	8,307,834	8,932,856
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		176,941	66,466	243,407
2.1 Held for trading financial assets		176,941	66,466	243,407
2.1.1 Public sector debt securities		7,600	28,719	36,319
2.1.2 Equity securities		-	-	-
2.1.3 Derivative financial assets held for trading		14,168	12,531	26,699
2.1.4 Other marketable securities		155,173	25,216	180,389
2.2 Financial assets at fair value through profit and loss		-	-	-
2.2.1 Public sector debt securities		-	-	-
2.2.2 Equity securities		-	-	-
2.2.3 Loans		-	-	-
2.2.4 Other marketable securities		-	-	-
III. BANKS	(5.1.3.)	7,404	3,568,616	3,576,020
IV. RECEIVABLES FROM MONEY MARKET		-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(5.1.4.)	2,088,123	2,339,942	4,428,065
5.1 Equity securities		10,325	38,172	48,497
5.2 Public sector debt securities		2,048,171	2,055,277	4,103,448
5.3 Other marketable securities		29,627	246,493	276,120
VI. LOANS AND RECEIVABLES	(5.1.5.)	29,860,983	6,180,316	36,041,299
6.1 Loans and receivables		29,813,800	6,180,316	35,994,116
6.1.1 Loans to risk group of the bank		84,022	67,951	151,973
6.1.2 Public sector debt securities		-	-	-
6.1.3 Other		29,729,778	6,112,365	35,842,143
6.2 Non-performing loans		714,130	-	714,130
6.3 Specific provisions (-)		666,947	-	666,947
VII. HELD TO MATURITY INVESTMENTS (Net)	(5.1.6.)	-	-	-
VIII. INVESTMENTS IN ASSOCIATES (Net)	(5.1.7.)	-	-	-
8.1 Accounted for under equity method		-	-	-
8.2 Unconsolidated associates		-	-	-
8.2.1 Financial associates		-	-	-
8.2.2 Non-financial associates		-	-	-
IX. INVESTMENTS IN SUBSIDIARIES (Net)	(5.1.8.)	377,647	-	377,647
9.1 Unconsolidated financial subsidiaries		353,967	-	353,967
9.2 Unconsolidated non-financial subsidiaries		23,680	-	23,680
X. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)	(5.1.9.)	20,000	-	20,000
10.1 Accounted for under equity method		20,000	-	20,000
10.2 Unconsolidated		-	-	-
10.2.1 Financial subsidiaries		-	-	-
10.2.2 Non-financial subsidiaries		-	-	-
XI. FINANCE LEASE RECEIVABLES (NET)	(5.1.10.)	1,285,866	643,376	1,929,242
11.1 Finance lease receivables		1,473,207	771,045	2,244,252
11.2 Operating lease receivables		-	-	-
11.3 Other		-	-	-
11.4 Unearned income (-)		187,341	127,669	315,010
XII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(5.1.11.)	-	-	-
12.1 Fair value hedge		-	-	-
12.2 Cash flow hedge		-	-	-
12.3 Hedge of net investment risks in foreign operations		-	-	-
XIII. TANGIBLE ASSETS (Net)	(5.1.12.)	409,559	184	409,743
XIV. INTANGIBLE ASSETS (Net)	(5.1.13.)	118,959	53	119,012
14.1 Goodwill		-	-	-
14.2 Other		118,959	53	119,012
XV. INVESTMENT PROPERTIES (Net)	(5.1.14.)	25,419	-	25,419
XVI. TAX ASSET	(5.1.15.)	138,710	-	138,710
16.1 Current tax asset		-	-	-
16.2 Deferred tax asset		138,710	-	138,710
XVII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	(5.1.16.)	117,006	-	117,006
17.1 Held for sale		117,006	-	117,006
17.2 Discontinued operations		-	-	-
XVIII. OTHER ASSETS	(5.1.17.)	183,231	581,438	764,669
TOTAL ASSETS		35,434,870	21,688,225	57,123,095

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1. BALANCE SHEET - LIABILITIES AND EQUITY (STATEMENT OF FINANCIAL POSITION)

		Audited Current Period 31.12.2018		
	Note	TL	FC	Total
I. FUNDS COLLECTED	(5.2.1.)	22,520,320	31,465,958	53,986,278
II. FUNDS BORROWED	(5.2.3.)	2,038,900	8,103,989	10,142,889
III. MONEY MARKETS		188,003	-	188,003
IV. SECURITIES ISSUED (Net)		-	-	-
V. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	-
VI. DERIVATIVE FINANCIAL LIABILITIES	(5.2.2.)	21,045	148,288	169,333
6.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss		21,045	148,288	169,333
6.2 Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income		-	-	-
VII. LEASE PAYABLES	(5.2.5.)	-	-	-
7.1 Finance Lease Payables		-	-	-
7.2 Operating Lease Payables		-	-	-
7.3 Other		-	-	-
7.4 Deferred Financial Lease Expenses (-)		-	-	-
VIII. PROVISIONS	(5.2.7.)	615,510	180,385	795,895
8.1 Restructuring Provision		-	-	-
8.2 Reserves For Employee Benefits		228,323	318	228,641
8.3 Insurance For Technical Provision (Net)		-	-	-
8.4 Other Provisions		387,187	180,067	567,254
IX. CURRENT TAX LIABILITIES	(5.2.8.)	175,685	-	175,685
X. DEFERRED TAX LIABILITIES		-	-	-
XI. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(5.2.9.)	-	-	-
11.1 Held For Sale		-	-	-
11.2 Related to Discontinued Operations		-	-	-
XII. SUBORDINATED DEBT INSTRUMENTS	(5.2.10.)	-	1,901,210	1,901,210
12.1 Loans		-	-	-
12.2 Other Debt Instruments		-	1,901,210	1,901,210
XIII. OTHER LIABILITIES	(5.2.4.)	1,282,540	151,939	1,434,479
XIV. SHAREHOLDERS' EQUITY	(5.2.11.)	5,489,985	(51,432)	5,438,553
14.1 Paid-in Capital		3,497,322	-	3,497,322
14.2 Capital Reserves		22,933	-	22,933
14.2.1 Share Premiums		22,933	-	22,933
14.2.2 Share Cancellation Profits		-	-	-
14.2.3 Other Capital Reserves		-	-	-
14.3 Other Accumulated Comprehensive Income or Loss That Will Not Be Reclassified Through Profit or Loss		(13,296)	-	(13,296)
14.4 Other Accumulated Comprehensive Income or Loss That Will Be Reclassified Through Profit or Loss		(29,522)	(51,432)	(80,954)
14.5 Profit Reserves		1,107,196	-	1,107,196
14.5.1 Legal Reserves		184,578	-	184,578
14.5.2 Statutory Reserves		-	-	-
14.5.3 Extraordinary Reserves		923,536	-	923,536
14.5.4 Other Profit Reserves		(918)	-	(918)
14.6 Profits or Losses		905,352	-	905,352
14.6.1 Prior Years' Profits or Losses		35,540	-	35,540
14.6.2 Current Period Net Profit or Loss		869,812	-	869,812
TOTAL LIABILITIES AND EQUITY		32,331,988	41,900,337	74,232,325

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

			Audited Prior Period 31.12.2017	
	Note	TL	FC	Total
I. FUNDS COLLECTED	(5.2.1)	19,955,412	19,901,988	39,857,400
1.1 Funds from risk group of the bank		393,595	118,292	511,887
1.2 Other		19,561,817	19,783,696	39,345,513
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(5.2.2)	21,446	59,251	80,697
III. FUNDS BORROWED	(5.2.3)	1,258,301	7,773,208	9,031,509
IV. MONEY MARKET BALANCES		750,524	-	750,524
V. MARKETABLE SECURITIES ISSUED (Net)		-	-	-
VI. SUNDRY CREDITORS	(5.2.4)	171,509	26,610	198,119
VII. OTHER LIABILITIES	(5.2.4)	318,674	16,177	334,851
VIII. FINANCE LEASE PAYABLES (Net)	(5.2.5)	-	-	-
8.1 Finance lease payables		-	-	-
8.2 Operating lease payables		-	-	-
8.3 Other		-	-	-
8.4 Deferred finance lease expenses (-)		-	-	-
IX. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	(5.2.6)	-	70,795	70,795
9.1 Fair value hedge		-	-	-
9.2 Cash flow hedge		-	70,795	70,795
9.3 Hedge of net investment in foreign operations		-	-	-
X. PROVISIONS	(5.2.7)	642,554	148,886	791,440
10.1 General loan loss provisions		312,384	93,084	405,468
10.2 Restructuring provisions		-	-	-
10.3 Reserve for employee benefits		184,864	185	185,049
10.4 Insurance technical reserves (net)		-	-	-
10.5 Other provisions		145,306	55,617	200,923
XI. TAX LIABILITY	(5.2.8)	56,271	-	56,271
11.1 Current tax liability		56,271	-	56,271
11.2 Deferred tax liability		-	-	-
XII. PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	(5.2.9)	-	-	-
12.1 Held for sale		-	-	-
12.2 Discontinued operations		-	-	-
XIII. SUBORDINATED LOANS	(5.2.10)	-	1,360,338	1,360,338
XIV. SHAREHOLDERS' EQUITY	(5.2.11)	4,578,542	12,609	4,591,151
14.1 Paid-in capital		3,097,322	-	3,097,322
14.2 Capital reserves		(31,788)	12,609	(19,179)
14.2.1 Share premiums		22,933	-	22,933
14.2.2 Share cancellation profits		-	-	-
14.2.3 Marketable securities revaluation reserve		(23,192)	12,609	(10,583)
14.2.4 Tangible assets revaluation reserve		-	-	-
14.2.5 Intangible assets revaluation reserve		-	-	-
14.2.6 Investment property revaluation reserve		-	-	-
14.2.7 Bonus shares obtained from associates, subsidiaries and jointly controlled entities		-	-	-
14.2.8 Hedging funds (effective portion)		(4,582)	-	(4,582)
14.2.9 Value increase on assets held for resale		-	-	-
14.2.10 Other capital reserves		(26,947)	-	(26,947)
14.3 Profit reserves		839,017	-	839,017
14.3.1 Legal reserves		150,389	-	150,389
14.3.2 Status reserves		-	-	-
14.3.3 Extraordinary reserves		688,628	-	688,628
14.3.4 Other profit reserves		-	-	-
14.4 Profit or Loss		673,991	-	673,991
14.4.1 Prior years income/losses		-	-	-
14.4.2 Current period net income/losses		673,991	-	673,991
14.5 Minority shares	(5.2.12)	-	-	-
TOTAL LIABILITIES AND EQUITY		27,753,233	29,369,862	57,123,095

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF OFF BALANCE SHEET ITEMS

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

2. STATEMENT OF OFF-BALANCE SHEET ITEMS

		Audited Current Period 31.12.2018		
	Note	TL	FC	Total
A. COMMITMENTS AND CONTINGENCIES (I+II+III)		57,546,517	29,226,698	86,773,215
I. GUARANTEES AND WARRANTIES	(5.3.1.)	6,416,633	5,451,457	11,868,090
1.1 Letters of Guarantee		6,206,886	4,182,512	10,389,398
1.1.1 Guarantees Subject to State Tender Law		217,252	174,971	392,223
1.1.2 Guarantees Given For Foreign Trade Operations		371,535	167,020	538,555
1.1.3 Other Letters of Guarantee		5,618,099	3,840,521	9,458,620
1.2 Bank Loans		17,516	56,582	74,098
1.2.1 Import Letter of Acceptances		17,516	56,582	74,098
1.2.2 Other Bank Acceptances		-	-	-
1.3 Letters of Credit		11,512	1,068,364	1,079,876
1.3.1 Documentary Letters of Credit		367	215,062	215,429
1.3.2 Other Letters of Credit		11,145	853,302	864,447
1.4 Guaranteed Refinancing		-	-	-
1.5 Endorsements		-	-	-
1.5.1 Endorsements to the Central Bank of Turkey		-	-	-
1.5.2 Other Endorsements		-	-	-
1.6 Other Guarantees		180,719	143,999	324,718
1.7 Other Warranties		-	-	-
II. COMMITMENTS	(5.3.1.)	50,194,084	1,327,223	51,521,307
2.1 Irrevocable Commitments		3,572,418	1,327,223	4,899,641
2.1.1 Forward Asset Purchase and Sales Commitments		345,756	1,327,223	1,672,979
2.1.2 Share Capital Commitment to Associates and Subsidiaries		-	-	-
2.1.3 Loan Granting Commitments		214,413	-	214,413
2.1.4 Securities Underwriting Commitments		-	-	-
2.1.5 Commitments For Reserve Deposits Requirements		-	-	-
2.1.6 Payment Commitments For Checks		1,136,474	-	1,136,474
2.1.7 Tax and Fund Liabilities From Export Commitments		-	-	-
2.1.8 Commitments For Credit Card Expenditure Limits		1,858,018	-	1,858,018
2.1.9 Commitments For Credit Cards and Banking Services Promotions		-	-	-
2.1.10 Receivables From Short Sale Commitments		-	-	-
2.1.11 Payables For Short Sale Commitments		-	-	-
2.1.12 Other Irrevocable Commitments		17,757	-	17,757
2.2 Revocable Commitments		46,621,666	-	46,621,666
2.2.1 Revocable Loan Granting Commitments		46,621,666	-	46,621,666
2.2.2 Other Revocable Commitments		-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(5.3.2.)	935,800	22,448,018	23,383,818
3.1 Derivative Financial Instruments Held For Risk Management		-	2,165,533	2,165,533
3.1.1 Fair Value Hedges		-	-	-
3.1.2 Cash Flow Hedges		-	2,165,533	2,165,533
3.1.3 Hedge of Net Investment in Foreign Operations		-	-	-
3.2 Held For Trading Transactions		935,800	20,282,485	21,218,285
3.2.1 Forward Foreign Currency Buy/Sell Transactions		652,622	1,755,501	2,408,123
3.2.1.1 Forward Foreign Currency Buy Transactions		347,631	862,093	1,209,724
3.2.1.2 Forward Foreign Currency Sell Transactions		304,991	893,408	1,198,399
3.2.2 Other Forward Buy/Sell Transactions		283,178	18,526,984	18,810,162
3.3 Other		-	-	-
B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)		316,497,679	142,487,425	458,985,104
IV. ITEMS HELD IN CUSTODY		10,816,866	5,644,771	16,461,637
4.1 Assets Under Management		-	-	-
4.2 Investment Securities Held in Custody		2,159,381	156,528	2,315,909
4.3 Checks Received For Collection		7,157,340	906,367	8,063,707
4.4 Commercial Notes Received For Collection		1,500,145	242,668	1,742,813
4.5 Other Assets Received For Collection		-	-	-
4.6 Assets Received For Public Offering		-	-	-
4.7 Other Items Under Custody		-	-	-
4.8 Custodians		-	4,339,208	4,339,208
V. PLEDGED ITEMS		305,669,174	136,780,695	442,449,869
5.1 Marketable Securities		185,945	99,786	285,731
5.2 Guarantee Notes		101,681	2,133,522	2,235,203
5.3 Commodity		6,094,405	633,381	6,727,786
5.4 Warranty		-	-	-
5.5 Properties		112,015,122	2,715,023	114,730,145
5.6 Other Pledged Items		187,272,021	131,198,983	318,471,004
5.7 Pledged Items-Depository		-	-	-
VI. ACCEPTED GUARANTEES AND WARRANTIES		11,639	61,959	73,598
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		374,044,196	171,714,123	545,758,319

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF OFF BALANCE SHEET ITEMS

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

			Audited Prior period 31.12.2017	
	Note	TL	FC	Total
A. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (I+II+III)		54,025,598	19,041,939	73,067,537
I. GUARANTEES	(5.3.1.)	6,501,080	4,567,075	11,068,155
1.1 Letters of guarantees		6,342,565	3,223,573	9,566,138
1.1.1 Guarantees subject to state tender law		214,018	-	214,018
1.1.2 Guarantees given for foreign trade operations		424,035	186,480	610,515
1.1.3 Other letters of guarantee		5,704,512	3,037,093	8,741,605
1.2 Bank loans		2,549	53,409	55,958
1.2.1 Import letter of acceptances		2,549	53,409	55,958
1.2.2 Other bank acceptances		-	-	-
1.3 Letter of credits		1,143	930,957	932,100
1.3.1 Documentary letter of credits		78	358,591	358,669
1.3.2 Other letter of credits		1,065	572,366	573,431
1.4 Pre-financing given as guarantee		-	27,919	27,919
1.5 Endorsements		-	-	-
1.5.1 Endorsements to the Central Bank of Republic of Turkey		-	-	-
1.5.2 Other endorsements		-	-	-
1.6 Other guarantees		154,823	331,217	486,040
1.7 Other collaterals		-	-	-
II. COMMITMENTS	(5.3.1.)	45,832,293	948,078	46,780,371
2.1 Irrevocable commitments		3,306,919	948,078	4,254,997
2.1.1 Forward asset purchase commitments		217,951	948,078	1,166,029
2.1.2 Share capital commitment to associates and subsidiaries		-	-	-
2.1.3 Loan granting commitments		368,519	-	368,519
2.1.4 Securities underwriting commitments		-	-	-
2.1.5 Commitments for reserve deposit requirements		-	-	-
2.1.6 Payment commitment for checks		1,345,239	-	1,345,239
2.1.7 Tax and fund liabilities from export commitments		99	-	99
2.1.8 Commitments for credit card expenditure limits		1,357,354	-	1,357,354
2.1.9 Commitments for promotions related with credit cards and banking activities		-	-	-
2.1.10 Receivables from short sale commitments		-	-	-
2.1.11 Payables for short sale commitments		-	-	-
2.1.12 Other irrevocable commitments		17,757	-	17,757
2.2 Revocable commitments		42,525,374	-	42,525,374
2.2.1 Revocable loan granting commitments		42,525,374	-	42,525,374
2.2.2 Other revocable commitments		-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(5.3.2.)	1,692,225	13,526,786	15,219,011
3.1 Derivative financial instruments for hedging purposes		-	1,565,503	1,565,503
3.1.1 Fair value hedge		-	-	-
3.1.2 Cash flow hedge		-	1,565,503	1,565,503
3.1.3 Hedge of net investment in foreign operations		-	-	-
3.2 Held for trading transactions		1,692,225	11,961,283	13,653,508
3.2.1 Forward foreign currency buy/sell transactions		737,140	1,699,381	2,436,521
3.2.1.1 Forward foreign currency transactions-buy		388,590	831,098	1,219,688
3.2.1.2 Forward foreign currency transactions-sell		348,550	868,283	1,216,833
3.2.2 Other forward buy/sell transactions		955,085	10,261,902	11,216,987
3.3 Other		-	-	-
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)		264,937,891	106,948,648	371,886,539
IV. ITEMS HELD IN CUSTODY		9,232,412	3,224,354	12,456,766
4.1 Assets under management		-	-	-
4.2 Investment securities held in custody		965,091	73,865	1,038,956
4.3 Checks received for collection		6,397,936	624,523	7,022,459
4.4 Commercial notes received for collection		1,869,385	190,069	2,059,454
4.5 Other assets received for collection		-	-	-
4.6 Assets received for public offering		-	-	-
4.7 Other items under custody		-	-	-
4.8 Custodians		-	2,335,897	2,335,897
V. PLEDGED ITEMS		255,693,840	103,679,813	359,373,653
5.1 Marketable securities		195,245	73,046	268,291
5.2 Guarantee notes		101,701	1,527,824	1,629,525
5.3 Commodity		5,045,489	470,272	5,515,761
5.4 Warranty		-	-	-
5.5 Properties		101,298,823	1,970,258	103,269,081
5.6 Other pledged items		149,052,582	99,638,413	248,690,995
5.7 Pledged items-depository		-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		11,639	44,481	56,120
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		318,963,489	125,990,587	444,954,076

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

3. INCOME STATEMENT

	Note	Audited Current Period 01.01.2018 - 31.12.2018
I. PROFIT SHARE INCOME	(5.4.1.)	5,997,843
1.1 Profit Share on Loans		5,053,908
1.2 Profit Share on Reserve Deposits		92,411
1.3 Profit Share on Banks		169,072
1.4 Profit Share on Money Market Placements		-
1.5 Profit Share on Marketable Securities Portfolio		416,738
1.5.1 Fair Value Through Profit or Loss		27,920
1.5.2 Fair Value Through Other Comprehensive Income		388,818
1.5.3 Measured at Amortised Cost		-
1.6 Finance Lease Income		229,320
1.7 Other Profit Share Income	(5.4.13.)	36,394
II. PROFIT SHARE EXPENSE (-)	(5.4.2.)	2,850,053
2.1 Expense on Profit Sharing Accounts	(5.4.4.)	1,995,548
2.2 Profit Share Expense on Funds Borrowed		818,702
2.3 Profit Share Expense on Money Market Borrowings		35,789
2.4 Expense on Securities Issued		-
2.5 Other Profit Share Expense	(5.4.13.)	14
III. NET PROFIT SHARE INCOME (I - II)		3,147,790
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		349,546
4.1 Fees And Commissions Received		549,490
4.1.1 Non-Cash Loans		123,459
4.1.2 Other		426,031
4.2 Fees And Commissions Paid (-)		199,944
4.2.1 Non-Cash Loans		27
4.2.2 Other	(5.4.13.)	199,917
V. PERSONNEL EXPENSES (-)		803,290
VI. DIVIDEND INCOME	(5.4.3.)	1,273
VII. NET TRADING INCOME / LOSS (Net)	(5.4.5.)	453,415
7.1 Capital Market Transaction Gains/Losses		10,241
7.2 Gains/Losses From Derivative Financial Instruments		138,101
7.3 Foreign Exchange Gains/Losses		305,073
VIII. OTHER OPERATING INCOME	(5.4.6.)	656,516
IX. NET OPERATING INCOME / LOSS (III+IV+V+VI+VII+ VIII)		3,805,250
X. EXPECTED LOSS PROVISIONS (-)	(5.4.7.)	1,977,360
XI. OTHER OPERATING EXPENSES (-)	(5.4.8.)	701,833
XII. NET OPERATING INCOME/(LOSS) (IX-X-XI)		1,126,057
XIII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-
XIV. INCOME / LOSS FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-
XV. INCOME / LOSS ON NET MONETARY POSITION		-
XVI. PROFIT/LOSS BEFORE TAX FROM CONTINUED OPERATIONS (XII+...+XV)	(5.4.9.)	1,126,057
XVII. TAX PROVISION FOR CONTINUED OPERATIONS (±)	(5.4.10.)	(256,245)
17.1 Current Tax Provision		(454,141)
17.2 Deferred Tax Income Effect (+)		26,837
17.3 Deferred Tax Expense Effect (-)		224,733
XVIII. CURRENT PERIOD PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XVI±XVII)	(5.4.11.)	869,812
XIX. INCOME FROM DISCONTINUED OPERATIONS		-
19.1 Income on Non-Current Assets Held For Sale		-
19.2 Income on Sale of Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)		-
19.3 Income on Other Discontinued Operations	(5.4.13.)	-
XX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-
20.1 Expenses From Non-Current Assets Held For Sale		-
20.2 Expenses From Sale of Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)		-
20.3 Expenses From Other Discontinued Operations	(5.4.13.)	-
XXI. PROFIT / (LOSS) BEFORE TAX FROM DISCONTINUED OPERATIONS (XIX-XX)		-
XXII. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-
22.1 Current Tax Provision		-
22.2 Deferred Tax Expense Effect (+)		-
22.3 Deferred Tax Income Effect (-)		-
XXIII. CURRENT PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXI±XXII)		-
XXIV. NET PROFIT/LOSS (XVIII±XXIII)	(5.4.12.)	869,812
24.1 Group's Income/Loss		869,812
24.2 Minority Interest Income/Loss (-)		-
Earnings Per Share Income/Loss		-

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Note	Audited Prior Period 01.01.2017 - 31.12.2017
I. PROFIT SHARE INCOME	(5.4.1.)	3,850,986
1.1 Profit Share on Loans		3,328,659
1.2 Profit Share on Reserve Deposits		50,595
1.3 Profit Share on Banks		30,204
1.4 Profit Share on Money Market Placements		-
1.5 Profit Share on Marketable Securities Portfolio		280,500
1.5.1 Held-For-Trading Financial Assets		-
1.5.2 Financial Assets at Fair Value Through Profit And Loss		8,771
1.5.3 Available-For-Sale Financial Assets		271,729
1.5.4 Investments Held-to-Maturity		-
1.6 Finance Lease Income		140,419
1.7 Other Profit Share Income		20,609
II. PROFIT SHARE EXPENSE	(5.4.2.)	1,716,773
2.1 Expense on Profit Sharing Accounts	(5.4.4.)	1,170,984
2.2 Profit Share Expense on Funds Borrowed		516,479
2.3 Profit Share Expense on Money Market Borrowings		29,270
2.4 Expense on Securities Issued		-
2.5 Other Profit Share Expense		40
III. NET PROFIT SHARE INCOME (I - II)		2,134,213
IV. NET FEES AND COMMISSIONS INCOME		241,002
4.1 Fees And Commissions Received		394,918
4.1.1 Non-Cash Loans		106,498
4.1.2 Other		288,420
4.2 Fees And Commissions Paid		153,916
4.2.1 Non-Cash Loans		17
4.2.2 Other		153,899
V. DIVIDEND INCOME	(5.4.3.)	-
VI. NET TRADING INCOME / EXPENSE (Loss)	(5.4.5.)	246,884
6.1 Capital Market Transaction Gain/Losses		6,960
6.2 Gain/Losses From Derivative Financial Instruments		(398,234)
6.3 Foreign Exchange Gain/Losses		638,158
VII. OTHER OPERATING INCOME	(5.4.6.)	230,217
VIII. NET OPERATING INCOME (III+IV+V+VI+VII)		2,852,316
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(5.4.7.)	783,703
X. OTHER OPERATING EXPENSES (-)	(5.4.8.)	1,219,680
XI. NET OPERATING INCOME/LOSS (VIII-IX-X)		848,933
XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER		-
XIII. GAIN / LOSS ON EQUITY METHOD		-
XIV. GAIN / LOSS ON NET MONETARY POSITION		-
XV. PROFIT/LOSS FROM CONTINUED OPERATIONS BEFORE TAXES (XI+...+XIV)	(5.4.9.)	848,933
XVI. TAX CHARGE FOR CONTINUED OPERATIONS (±)	(5.4.10.)	(174,942)
16.1 Current Income Tax Charge		(197,638)
16.2 Deferred Tax Charge / Benefit		22,696
XVII. NET PROFIT/LOSS FROM CONTINUED OPERATIONS (XV±XVI)	(5.4.11.)	673,991
XVIII. INCOME ON DISCONTINUED OPERATIONS		-
18.1 Income on Assets Held For Sale		-
18.2 Income on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Vent.)		-
18.3 Income on Other Discontinued Operations		-
XIX. LOSS FROM DISCONTINUED OPERATIONS (-)		-
19.1 Loss From Assets Held For Sale		-
19.2 Loss on Sale of Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)		-
19.3 Loss From Other Discontinued Operations		-
XX. PROFIT / LOSS ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)		-
XXI. TAX CHARGE FOR DISCONTINUED OPERATIONS (±)		-
21.1 Current Income Tax Charge		-
21.2 Deferred Tax Charge / Benefit		-
XXII. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)		-
XXIII. NET PROFIT/LOSS (XVII+XXII)	(5.4.12.)	673,991
23.1 Group's Income/Loss		673,991
23.2 Minority Interest Income/Loss (-)		-
Earnings Per Share Income/Loss (Full TL)		-

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS

ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2018

(Tutarlar aksi belirtilmedikçe Bin Türk Lirası (TL) olarak ifade edilmiştir.)

4. STATEMENT OF INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY

	Audited Current Period 01.01.2018- 31.12.2018
I. CURRENT PROFIT / LOSS	869,812
II. OTHER COMPREHENSIVE INCOME	(52,138)
2.1 Other Comprehensive Income Not Reclassified Through Profit Or Loss	13,651
2.1.1 Property And Equipment Revaluation Increase/Decrease	-
2.1.2 Intangible Assets Revaluation Increase/Decrease	-
2.1.3 Defined Benefit Pension Plan Remeasurement Gain/Loss	17,064
2.1.4 Other Comprehensive Income Items Not Reclassified Through Profit Or Loss	-
2.1.5 Taxes Related to Other Comprehensive Income Items Not Reclassified Through Profit or Loss	(3,413)
2.2 Other Comprehensive Income Reclassified Through Profit Or Loss	(65,789)
2.2.1 Foreign Currency Translation Difference	-
2.2.2 Valuation And/Or Reclassification Income/Expense of the Financial Assets At Fair Value Through Other Comprehensive Income	(139,196)
2.2.3 Cash Flow Hedge Income/Loss	50,973
2.2.4 Foreign Net Investment Hedge Income/Loss	-
2.2.5 Other Comprehensive Income Items Reclassified Through Profit or Losses	-
2.2.6 Taxes Related Other Comprehensive Income Items Reclassified Through Profit Or Loss	22,434
III. TOTAL COMPREHENSIVE INCOME (I+II)	817,674

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS

ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2018

(Tutarlar aksi belirtilmedikçe Bin Türk Lirası (TL) olarak ifade edilmiştir.)

	Audited Prior Period 01.01.2017- 31.12.2017
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FROM AVAILABLE FOR SALE FINANCIAL ASSETS	24,684
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	-
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	-
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective Portion of Fair Value Differences)	3,294
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS (Effective Portion of Fair Value Differences)	-
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY AS PER TURKISH ACCOUNTING STANDARDS	(16,493)
IX. DEFERRED TAX ON VALUATION DIFFERENCES	(2,098)
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	9,387
XI. PROFIT/LOSS	673,991
XI.1 Change in fair value of marketable securities (transfer to profit/loss)	(1,518)
XI.2 Reclassification of derivatives accounted for cash flow hedge purposes to income statement	-
XI.3 Reclassification of hedge of net investments in foreign operations to income statement	-
XI.4 Other	675,509
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	683,378

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(Tutarlar aksi belirtilmedikçe Bin Türk Lirası (TL) olarak ifade edilmiştir.)

5. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

CHANGES IN THE EQUITY ITEMS	Note	Paid-in Capital	Share Premiums	Share Cancellation Profits	Other Capital Reserves	Accumulated Other Income or Loss That Will Not Be Reclassified to Profit or Loss				Profit Reserves	Prior Period Profit or (Loss)	Net Profit/ Loss for the Period	Shareholders' Equity Less Minority Shares		Total Shareholders' Equity
						1	2	3	4	5	6		Minority Shares	Minority Shares	
Current Period (01.01.2018 - 30.12.2018)															
I. Prior Period Ending Balance		3,097,322	22,933	-	-	-	(26,947)	-	-	(10,583)	(4,582)	839,017	673,991	-	4,591,151
Corrections and Accounting Policy Changes Made According to TAS 8		-	-	-	-	-	-	-	-	-	-	35,540	-	-	35,540
2.1 Effect Of Corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect Of Changes In Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Beginning Balance (I+II)		3,097,322	22,933	-	-	-	(26,947)	-	-	(10,583)	(4,582)	839,017	709,531	-	4,626,691
IV. Total Comprehensive Income		-	-	-	-	-	13,651	-	-	(106,567)	40,778	-	-	-	817,674
V. Capital Increase by Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase by Internal Reserves		400,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Paid in Capital Inflation Adjustment Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Convertible Bonds to Share		-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Subordinated Debt Instruments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Increase / Decrease by Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Profit Distribution (*)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.1 Dividends Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.2 Transfers To Legal Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at end of the Period (III+IV+...+XI)		3,497,322	22,933	-	-	-	(13,296)	-	-	(117,150)	36,196	1,107,196	35,540	869,812	5,438,553

1. Increase/Decrease in revaluation of fixed assets,

2. Accumulated remeasurement gains / losses of defined benefit plans,

3. Other (Share of other comprehensive income of the investments accounted for by the equity method that can not be classified as profit / loss and accumulated amount of other comprehensive income that will not be reclassified as other profit or loss),

4. Exchange differences,

5. Accumulated revaluation and / or classification gains / losses of fair value difference of financial assets which is added to other comprehensive income,

6. Accumulated gains or (losses) on cash flow hedges and net investment hedges

(*) In the Ordinary General Assembly Meeting dated 3 April 2018, the Parent Bank decided on reserving primary reserves amounting to TL 33,700; other reserves amount to TL 12,419 funded via retained profit from sales of real estates, to not pay cash dividends to shareholders; dividend to management amount to TL 4,894; funding capital increase from internal sources via remaining net income amount to TL 387,142 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 489 and remaining amount to 234,908 to extraordinary legal reserves. In accordance with Article 3 of the Law on support for research and development activities numbered 5746, TL 439 received for the development activities carried out has not been distributed.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2018

(Tutarlar aksi belirtilmedikçe Bin Türk Lirası (TL) olarak ifade edilmiştir.)

Audited	Note	Paid-in capital	Effect of inflation accounting on paid-in capital and other capital reserves	Share premium	Share certificate cancellation profits	Legal reserves	Statutory reserves	Extraordinary reserve	Other Reserve	Current period net income / net income (loss)	Marketable securities revaluation reserve	Tangible and intangible assets revaluation fund	Bonus shares from investments	Hedging reserves	Asset held for sale and discop. valuation fund	Total excluding minority interest	Minority interest	Total equity
I. Balances at beginning of the period	2,787,322	-	22,933	-	122,861	-	351,949	122,779	541,966	(30,529)	-	-	-	(7,217)	-	3,912,064	-	3,912,064
II. Changes during the period																		
III. Increase/decrease related to merger differences																		
IV. Hedging funds (effective portion)																		
4.1 Cash-flow hedge																		
4.2 Hedge of net investment in foreign operations																		
V. Tangible assets revaluation differences																		
VI. Intangible assets revaluation differences																		
VII. Bonus shares obtained from associates, subsidiaries and jointly controlled operations																		
VIII. Foreign exchange differences																		
IX. Changes related to the disposal of assets																		
X. Changes related to the reclassification of assets																		
XI. The effect of change in associate's equity																		
XII. Capital increase	310,000								(51,667)	(258,333)								
12.1 Cash																		
12.2 Internal sources	310,000								(51,667)	(258,333)								
XIII. Share issue premium																		
XIV. Share cancellation profits																		
XV. Inflation adjustment to paid-in capital																		
XVI. Other									(13,194)									
XVII. Net income/(loss) for the period									673,991									
XVIII. Profit distribution ^(*)									51,667	(420,165)								
18.1 Dividends distributed										(4,291)								
18.2 Transfers to reserves									336,679	(415,874)								
18.3 Other																		
Balances at end of the period (I+II+III+...+XVI+XVII+XVIII)	(2-11)	3,097,322	-	22,933	-	150,389	-	688,628	(26,947)	673,991	(10,583)	-	-	(4,582)	-	4,591,151	-	4,591,151

^(*) In the Ordinary General Assembly Meeting dated 28 March 2017, the Bank decided on reserving primary reserves amounting to TL 27,098; other reserves amount to TL 51,007 funded via retained profit from sales of real estates, immovable properties, cash dividend payments to shareholders, dividend payment to management amount to TL 4,291; funding capital increase from internal sources via remaining net income amount to TL 121,801 in return of distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 430, remaining amount to TL 336,679 to extraordinary legal reserves, other reserve amount to TL 660 which obtained from research development activities according to Law no. 5746 under Articles 3, funding capital increase from internal sources and other reserves amount to TL 136,532 via retained profit from sales of real estates in prior periods.

^(**) Amounting to TL (13,194) represents actuarial loss and tax effect of retirement payments.

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

6. STATEMENT OF CASH FLOWS

	Note	Audited Current Period 01.01.2018- 31.12.2018
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating Profit Before Changes in Assets And Liabilities From Banking Operations		2,570,212
1.1.1 Profit Share Income Received		5,660,024
1.1.2 Profit Share Expense Paid		(2,615,318)
1.1.3 Dividends Received		1,096
1.1.4 Fees And Commissions Received		553,884
1.1.5 Other Income		1,054,536
1.1.6 Collections From Previously Written Off Loans		106,667
1.1.7 Payments to Personnel And Service Suppliers		(747,241)
1.1.8 Taxes Paid		(403,118)
1.1.9 Others		(1,040,318)
1.2 Changes in Assets And Liabilities From Banking Operations		1,932,566
1.2.1 Net (Increase) Decrease in Financial Assets at Fair Value Through Profit or Loss		(4,710)
1.2.2 Net (Increase) Decrease in Due From Banks And Other Financial Institutions		(1,744,784)
1.2.3 Net (Increase) Decrease in Loans		(9,392,623)
1.2.4 Net (Increase) Decrease in Other Assets		(2,882,112)
1.2.5 Net Increase (Decrease) in Bank Deposits		(57,331)
1.2.6 Net Increase (Decrease) in Other Deposits		14,012,363
1.2.7 Net (Increase) Decrease in Financial Assets at Fair Value Through Profit or Loss		-
1.2.8 Net Increase (Decrease) in Funds Borrowed		1,095,017
1.2.9 Net Increase (Decrease) in Due Payables		-
1.2.10 Net Increase (Decrease) in Other Liabilities		906,746
I. Net Cash Provided From Banking Operations		4,502,778
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided From Investing Activities		(1,829,187)
2.1 Cash Paid For Purchase Jointly Controlled Operations, Associates And Subsidiaries		(152,061)
2.2 Cash Obtained From Sale of Jointly Controlled Operations, Associates And Subsidiaries		16,901
2.3 Fixed Assets Purchases		(62,514)
2.4 Fixed Assets Sales		236,500
2.5 Cash Paid for Purchase of Financial Assets at Fair Value Through Other Comprehensive Income		(4,203,508)
2.6 Cash Obtained from Sale of Financial Assets at Fair Value Through Other Comprehensive Income		2,409,765
2.7 Cash Paid For Purchase of Financial Assets at Amortized Cost		-
2.8 Cash Obtained From Sale of Financial Assets at Amortized Cost		-
2.9 Other		(74,270)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided From Financing Activities		(4,894)
3.1 Cash Obtained From Funds Borrowed And Securities Issued		-
3.2 Cash Used For Repayment of Funds Borrowed And Securities Issued		-
3.3 Capital Increase		-
3.4 Dividends Paid		(4,894)
3.5 Payments For Finance Leases		-
3.6 Other		-
IV. Effect of Change in Foreign Exchange Rate on Cash And Cash Equivalents		(66,621)
V. Net Increase in Cash And Cash Equivalents		2,602,076
VI. Cash And Cash Equivalents at The Beginning of The Period		4,078,048
VII. Cash And Cash Equivalents at The End of The Period		6,680,124

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Audited Prior Period 01.01.2017-31.12.2017
A. Cash flows from banking operations		
1.1 Operating profit before changes in operating assets and liabilities		1,458,718
1.1.1 Profit share income received		3,816,222
1.1.2 Profit share expense paid		(1,663,981)
1.1.3 Dividend received		-
1.1.4 Fees and commissions received		396,315
1.1.5 Other income		379,884
1.1.6 Collections from previously written off loans		62,306
1.1.7 Payments to personnel and service suppliers		(947,562)
1.1.8 Taxes paid		(222,002)
1.1.9 Others		(362,464)
1.2 Changes in operating assets and liabilities		(2,094,816)
1.2.1 Net (increase) decrease held for trading financial assets		(160,784)
1.2.2 Net (increase) decrease in financial assets at fair value through profit or loss		-
1.2.3 Net (increase) decrease in due from banks and other financial institutions		(1,025,350)
1.2.4 Net (increase) decrease in loans		(8,557,986)
1.2.5 Net (increase) decrease in other assets		(199,960)
1.2.6 Net increase (decrease) in bank deposits		(301,866)
1.2.7 Net increase (decrease) in other deposits		8,204,587
1.2.8 Net increase (decrease) in funds borrowed		994,812
1.2.9 Net increase (decrease) in due payables		-
1.2.10 Net increase (decrease) in other liabilities		(1,048,269)
I. Net cash provided from banking operations		(636,098)
B. Cash flows from investing activities		
II. Net cash provided from investing activities		(861,961)
2.1 Cash paid for purchase jointly controlled operations, associates and subsidiaries	1.12	(123,536)
2.2 Cash obtained from sale of jointly controlled operations, associates and subsidiaries		202,431
2.3 Fixed assets purchases		(65,333)
2.4 Fixed assets sales		1,998
2.5 Cash paid for purchase of financial assets available for sale		(2,279,516)
2.6 Cash obtained from sale of financial assets available for sale		1,450,956
2.7 Cash paid for purchase of investment securities		-
2.8 Cash obtained from sale of investment securities		-
2.9 Other	1.13.1	(48,961)
C. Cash flows from financing activities		
III. Net cash provided from financing activities		(4,331)
3.1 Cash obtained from funds borrowed and securities issued		-
3.2 Cash used for repayment of funds borrowed and securities issued		-
3.3 Capital increase		-
3.4 Dividends paid		(4,291)
3.5 Payments for finance leases		(40)
3.6 Other		-
IV. Effect of change in foreign exchange rate on cash and cash equivalents	(V-d)	(15,217)
V. Net increase (decrease) in cash and cash equivalents (i + ii + iii + iv)		(1,517,607)
VI. Cash and cash equivalents at the beginning of the period	(V-a)	5,595,655
VII. Cash and cash equivalents at the end of the period	(V-a)	4,078,048

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

STATEMENTS OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

7. STATEMENT OF PROFIT DISTRIBUTION

	Current Period 01.01.2018- 31.12.2018 ^(*)
I. Distribution of current year profit	
1.1. Current period profit	1,126,057
1.2. Taxes and legal duties payable (-)	256,245
1.2.1. Corporate tax (income tax)	454,141
1.2.2. Withholding tax	-
1.2.2. Withholding tax	(197,896)
A. Net profit for the period (1.1-1.2) (Not V-I-17-c)	869,812
1.3. Accumulated losses (-)	-
1.4. First legal reserves (-)	-
1.5. Other statutory reserves (-)	-
B. Net profit available for distribution [(A-(1.3+1.4+1.5))] ^(***)	869,812
1.6. First dividend to shareholders (-)	-
1.6.1. To owners of ordinary shares	-
1.6.2. To owners of privileged shares	-
1.6.3. To owners of redeemed shares	-
1.6.4. To profit sharing bonds	-
1.6.5. To holders of profit and loss sharing certificates	-
1.7. Dividends to personnel(-)	-
1.8. Dividends to board of directors (-)	-
1.9. Second dividend to shareholders (-)	-
1.9.1. To owners of ordinary shares	-
1.9.2. To owners of privileged shares	-
1.9.3. To owners of redeemed shares	-
1.9.4. To profit sharing bonds	-
1.9.5. To holders of profit and loss sharing certificates	-
1.10. Second legal reserves (-)	-
1.11. Status reserves (-)	-
1.12. Extra ordinary reserves	-
1.13. Other reserves	-
1.14. Special funds	-
II. Distribution of reserves	-
2.1. Appropriated reserves	-
2.2. Second legal reserves (-)	-
2.3. Dividends to shareholders (-)	-
2.3.1. To owners of ordinary shares	-
2.3.2. To owners of privileged shares	-
2.3.3. To owners of redeemed shares	-
2.3.4. To profit sharing bonds	-
2.3.5. To holders of profit and loss sharing certificates	-
2.4. Dividends to personnel (-)	-
2.5. Dividends to board of directors (-)	-
III. Earnings per share	-
3.1. To owners of ordinary shares	-
3.2 To owners of ordinary shares (%)	-
3.3. To owners of privileged shares	-
3.4. To owners of privileged shares (%)	-
IV. Dividend per Share	-
4.1. To owners of ordinary shares	-
4.2 To owners of ordinary shares (%)	-
4.3. To owners of privileged shares	-
4.4. To owners of privileged shares (%)	-

^(*) The profit distribution of the Bank is decided at the General Assembly meeting which is not yet held as of the date of the preparation of these financial statements.

^(***) Deferred tax benefit is presented under other tax and legal liabilities. Deferred tax benefit can not be included in the distributable profit, thus it is classified under extraordinary reserves

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

STATEMENTS OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Prior Period 01.01.2017- 31.12.2017 ^(*)
I. Distribution of current year profit	
1.1. Current period profit	848,933
1.2. Taxes and legal duties payable (-)	174,942
1.2.1. Corporate tax (income tax)	197,638
1.2.2. Withholding tax	-
1.2.3. Other taxes and duties ^(**)	(22,696)
A. Net profit for the period (1.1-1.2) (Not V-I-17-c)	673,991
1.3. Accumulated losses (-)	-
1.4. First legal reserves (-)	33,700
1.5. Other statutory reserves (-)	-
B. Net profit available for distribution [(A-(1.3+1.4+1.5))] ^(***)	640,291
1.6. First dividend to shareholders (-)	-
1.6.1. To owners of ordinary shares	-
1.6.2. To owners of privileged shares	-
1.6.3. To owners of redeemed shares	-
1.6.4. To profit sharing bonds	-
1.6.5. To holders of profit and loss sharing certificates	-
1.7. Dividends to personnel(-)	-
1.8. Dividends to board of directors (-)	4,894
1.9. Second dividend to shareholders (-)	-
1.9.1. To owners of ordinary shares	-
1.9.2. To owners of privileged shares	-
1.9.3. To owners of redeemed shares	-
1.9.4. To profit sharing bonds	-
1.9.5. To holders of profit and loss sharing certificates	-
1.10. Second legal reserves (-)	489
1.11. Status reserves (-)	-
1.12. Extra ordinary reserves ^(***)	234,908
1.13. Other reserves	12,858
1.14. Special funds	-
II. Distribution of reserves	-
2.1. Appropriated reserves	-
2.2. Second legal reserves (-)	-
2.3. Dividends to shareholders (-)	-
2.3.1. To owners of ordinary shares	-
2.3.2. To owners of privileged shares	-
2.3.3. To owners of redeemed shares	-
2.3.4. To profit sharing bonds	-
2.3.5. To holders of profit and loss sharing certificates	-
2.4. Dividends to personnel (-)	-
2.5. Dividends to board of directors (-)	-
III. Earnings per share	-
3.1. To owners of ordinary shares	-
3.2. To owners of ordinary shares (%)	-
3.3. To owners of privileged shares	-
3.4. To owners of privileged shares (%)	-
IV. Dividend per share	-
4.1. To owners of ordinary shares	-
4.2. To owners of ordinary shares (%)	-
4.3. To owners of privileged shares	-
4.4. To owners of privileged shares (%)	-

^(*) The profit distribution of the Bank is decided at the General Assembly meeting which is not yet held as of the date of the preparation of these financial statements.

^(**) Deferred tax benefit is presented under other tax and legal liabilities. Deferred tax benefit can not be included in the distributable profit, thus it is classified under extraordinary reserves.

^(***) TL 387,142 from retained earnings and TL 12,858 from other reserves are transferred to paid-in capital.

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION THREE ACCOUNTING PRINCIPLES

1. Explanations on Basis of Presentation

1.1 The preparation of the financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on Accounting Applications for Banks and Safeguarding of Documents:

The Bank prepares its financial statements in accordance with the "Regulation On The Procedures And Principles For Accounting Practices And Retention Of Documents By Banks" published in the Official Gazette dated 1 November 2006 with numbered 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Agency ("BRSA") as well as the circulars and pronouncements published by the BRSA. For matters not regulated by the aforementioned legislations, the Bank prepares its financial statements in accordance with the BRSA Accounting and Financial Reporting Legislation, which comprises the terms of the Turkish Accounting Standards issued by the Public Oversight Accounting and Auditing Standards Authority.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.2 Classification:

Records of Classifications and Amendments Regarding the Initial Implementation of TFRS 9 Financial Instruments
Dated 1 January 2018:

	31/12/2017	TFRS 9 Classification Effect	TFRS 9 Valuation Effect	01/01/2018
ASSETS				
FINANCIAL ASSETS (Net)	17,180,348	-	(6,096)	17,174,252
Cash and Cash Equivalents	12,508,876	-	-	12,508,876
Cash and Balances with Central Bank	8,932,856	-	-	8,932,856
Banks	3,576,020	-	-	3,576,020
Money Markets	-	-	-	-
Financial Assets at Fair Value Through Profit or Loss	243,407	(26,699)	-	216,708
Government Debt Securities	36,319	-	-	36,319
Equity Instruments	-	-	-	-
Marketable Derivative Financial Assets	26,699	(26,699)	-	-
Other Financial Assets	180,389	-	-	180,389
Financial Assets at Fair Value Through Other Comprehensive Income	4,428,065	-	-	4,428,065
Government Debt Securities	4,103,448	-	-	4,103,448
Equity Instruments	48,497	-	-	48,497
Other Financial Assets	276,120	-	-	276,120
Financial Assets Measured at Amortised Cost	-	-	-	-
Government Debt Securities	-	-	-	-
Other Financial Assets	-	-	-	-
Derivative Financial Assets	-	26,699	-	26,699
Derivative Financial Assets at Fair Value Through Profit or Loss	-	26,699	-	26,699
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	-	-	-	-
Non-Performing Financial Assets	-	-	-	-
Expected Loss Provision (-)	-	-	6,096	6,096
LOANS (Net)	37,970,541	(203,329)	50,622	37,817,834
Loans	35,994,116	-	-	35,994,116
Loans Measured at Amortised Cost	35,994,116	(57,516)	-	35,936,600
Loans at Fair Value Through Profit or Loss	-	57,516	-	57,516
Loans at Fair Value Through Other Comprehensive Income	-	-	-	-
Lease Receivables	1,929,242	-	-	1,929,242
Finance Lease Receivables	2,244,252	-	-	2,244,252
Operational Lease Receivables	-	-	-	-
Unearned Income (-)	315,010	-	-	315,010
Factoring Receivables	-	-	-	-
Measured at Amortised Cost	-	-	-	-
Fair Value Through Profit or Loss	-	-	-	-
Fair Value Through Other Comprehensive Income	-	-	-	-
Non-Performing Loans	714,130	-	-	714,130
Expected Credit Losses (-)	666,947	203,329	(50,622)	819,654
12-Month Expected Credit Losses (Stage I)	-	180,452	(49,378)	131,074
Significant Increase in Credit Risk (Stage II)	-	22,877	176,132	199,009
Credit-Impaired Losses (Stage III / Special Provision)	666,947	-	(177,376)	489,571
PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (Net)	117,006	-	-	117,006
Held For Sale	117,006	-	-	117,006
Related to Discontinued Operations	-	-	-	-
EQUITY INVESTMENTS	397,647	-	-	397,647
Investments in Associates (Net)	-	-	-	-
Associates Valued Based on Equity Method	-	-	-	-
Unconsolidated Associates	-	-	-	-
Subsidiaries (Net)	377,647	-	-	377,647
Unconsolidated Financial Subsidiaries	353,967	-	-	353,967
Unconsolidated Non-Financial Subsidiaries	23,680	-	-	23,680
Joint Ventures (Net)	20,000	-	-	20,000
Joint Ventures Valued Based on Equity Method	20,000	-	-	20,000
Unconsolidated Joint Ventures	-	-	-	-
TANGIBLE ASSETS (Net)	409,743	-	-	409,743
INTANGIBLE ASSETS (Net)	119,012	-	-	119,012
Goodwill	-	-	-	-
Other	119,012	-	-	119,012
INVESTMENT PROPERTIES (Net)	25,419	-	-	25,419
CURRENT TAX ASSETS	-	-	-	-
DEFERRED TAX ASSETS	138,710	-	-	138,710
OTHER ASSETS	764,669	-	-	764,669
TOTAL ASSETS	57,123,095	(203,329)	44,526	56,964,292

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LIABILITIES	31/12/2017	TFRS 9 Classification Effect	TFRS 9 Valuation Effect	01/01/2018
FUNDS COLLECTED	39,857,400	-	-	39,857,400
FUNDS BORROWED	9,031,509	-	-	9,031,509
MONEY MARKETS	750,524	-	-	750,524
SECURITIES ISSUED (Net)	-	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-
DERIVATIVE FINANCIAL LIABILITIES	80,697	(80,697)	-	-
FUNDS BORROWED	-	151,492	-	151,492
Derivative Financial Liabilities at Fair Value Through Profit or Loss	-	151,492	-	151,492
Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	-	-	-	-
LEASE PAYABLES	-	-	-	-
Finance Lease Payables	-	-	-	-
Operating Lease Payables	-	-	-	-
Other	-	-	-	-
Deferred Financial Lease Expenses (-)	-	-	-	-
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	70,795	(70,795)	-	-
Fair value hedge	-	-	-	-
Cash flow hedge	70,795	(70,795)	-	-
Hedge of net investment in foreign operations	-	-	-	-
PROVISIONS	791,440	(203,329)	-	588,111
General Provision	405,468	(405,468)	-	-
Restructuring Provision	-	-	-	-
Reserves For Employee Benefits	185,049	-	-	185,049
Insurance For Technical Provision (Net)	-	-	-	-
Other Provisions	200,923	202,139	-	403,062
CURRENT TAX LIABILITIES	56,271	-	-	56,271
DEFERRED TAX LIABILITIES	-	-	8,986	8,986
LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	-	-	-	-
Held For Sale	-	-	-	-
Related to Discontinued Operations	-	-	-	-
SUBORDINATED DEBT INSTRUMENTS	1,360,338	-	-	1,360,338
Loans	1,360,338	-	-	1,360,338
Other Debt Instruments	-	-	-	-
SUNDRY CREDITORS	198,119	(198,119)	-	-
OTHER LIABILITIES	334,851	(334,851)	-	-
OTHER FINANCIAL LIABILITIES	-	532,970	-	532,970
SHAREHOLDERS' EQUITY	4,591,151	-	35,540	4,626,691
Paid-in Capital	3,097,322	-	-	3,097,322
Capital Reserves	(19,179)	42,112	-	22,933
Share Premiums	22,933	-	-	22,933
Share Cancellation Profits	-	-	-	-
Other Capital Reserves	(26,947)	26,947	-	-
Other Accumulated Comprehensive Income or Loss That Will Not Be Reclassified Through Profit or Loss	-	(26,947)	-	(26,947)
Other Accumulated Comprehensive Income or Loss That Will Be Reclassified Through Profit or Loss	-	(15,165)	-	(15,165)
Marketable securities revaluation reserve	(10,583)	10,583	-	-
Tangible assets revaluation reserve	-	-	-	-
Intangible assets revaluation reserve	-	-	-	-
Investment property revaluation reserve	-	-	-	-
Bonus shares obtained from associates, subsidiaries and jointly controlled entities	-	-	-	-
Hedging funds (effective portion)	(4,582)	4,582	-	-
Value increase on assets held for resale	-	-	-	-
Profit Reserves	839,017	-	-	839,017
Legal Reserves	150,389	-	-	150,389
Statutory Reserves	-	-	-	-
Extraordinary Reserves	688,628	-	-	688,628
Other Profit Reserves	-	-	-	-
Profits or Losses	673,991	-	35,540	709,531
Prior Years' Profits or Losses	-	-	35,540	35,540
Current Period Net Profit or Loss	673,991	-	-	673,991
Minority shares	-	-	-	-
TOTAL LIABILITIES	57,123,095	(203,329)	44,526	56,964,292

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Details of the Records of Classifications and Amendments Regarding the Initial Implementation of TFRS 9 Financial Instruments dated 1 January 2018 are stated below.

A- As of 1 January 2018, securities portfolio amounting to TL 216,708 classified under "Held for Trading Financial Assets" in the prior period, were reclassified under "Financial Assets at the Fair Value through Profit or Loss" as they were considered within the scope of a business model whose objective is to collect and to sell contractual cash flows.

B- As of 1 January 2018, securities portfolio amounting to TL 4,428,065 classified under "Available for Sale Financial Assets" in the prior period, were reclassified under "Financial Assets classified as Fair Value through Other Comprehensive Income" as they were considered within the scope of a business model whose objective is to collect and to sell contractual cash flows.

C- In addition with TFRS 9, as of 1 January 2018, prior period "General Provisions" item has been written off and the impact of "Expected Loss Provisions" is reflected thorough relevant lines. As per the scope of TFRS 9, expected credit losses for financial assets and loans are classified as "Expected Loss Provisions" under Assets, credit losses for non-cash loans are classified as "Other Provisions" under in Liabilities.

Reconciliation of provision of impairment opening balances in transition to TFRS 9 is stated below.

Reconciliation of Provision of Impairment Opening Balances in Transition to TFRS 9			
	Book Value Before TFRS 9 31/12/2017	Remeasurements and Classification	Book Value After TFRS 9 01/01/2018
General Provisions	405,468	(405,468)	-
Expected Credit Losses	666,947	158,803	825,750
12 Month Expected Credit Losses (Stage I)	-	131,074	131,074
Significant Increase in Credit Risk (Stage II)	-	199,009	199,009
Credit-Impaired Losses (Stage III/Special Provision)	666,947	(177,376)	489,571
Financial Assets	-	6,096	6,096
Other Provisions	200,923	202,139	403,062
Total	1,273,338	(44,526)	1,228,812

D- With the initial application of TFRS 9, as of 1 January 2018, a total increase after tax amounting TL 35,540 has occurred, due to the increase of TL 44,526 from the calculation of expected loss provisions and the decrease of TL 8,986 from the effect of deferred tax.

1.3 Accounting policies and valuation principles applied in the preparation of unconsolidated financial statements:

The financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss, and the financial assets and liabilities at fair value through other comprehensive income that are measured at fair values.

The preparation of unconsolidated financial statements in conformity with TAS requires the Bank management to make assumptions and estimates with respect to the assets and liabilities on the balance sheet and contingent issues outstanding as of the balance sheet date. These assumptions and estimates mainly consist of calculations of the fair values of financial instruments and the impairment on assets. The assumptions and estimates are reviewed regularly and, when necessary, appropriate corrections are made and the effects of such corrections are reflected on the income statement.

1.4 Preparation of the financial statements as regards to the current purchasing power of money:

Until 31 December 2004, the financial statements of the Bank were subject to inflation adjustments in accordance with Turkish Accounting Standard No: 29 "Financial Reporting in Hyperinflationary Economies" ("TAS 29"). As per the BRSA decision numbered 1623 and dated 21 April 2005 and the BRSA circular dated 28 April 2005 it was stated that the indicators for the application of inflation accounting were no longer applicable. Consequently as of 1 January 2005, the inflation accounting has not been applied.

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1.5 Disclosures Regarding TFRS 9 Financial Instruments:

TFRS 9 "Financial Instruments", which is effective as at 1 January 2018 is published by the Public Oversight Accounting and Auditing Standards Authority ("POA") in the Official Gazette numbered 29953 dated 19 January 2017. As of 1 January 2018, the application of TFRS 9 replaced "TAS 39: Financial Instruments: Recognition and Measurement." standard.

TFRS 9 also includes new principles for general hedge accounting which aims to harmonize hedge accounting with risk management applications. In the admission of the accounting policies, TFRS 9 presents the option of postponing the adoption of TFRS 9 hedge accounting and continuing to apply the hedge accounting provisions of TAS 39. Within this context, the Bank will continue to apply the hedge accounting provisions of TAS 39.

All recognized financial assets that are within the scope of TFRS 9 are required to be initially measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

Dividends obtained from such investments are accounted in the financial statements as profit or loss unless they are evidently a part of the recoverable cost of investment.

The Bank will apply the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods.

The combined application of the contractual cash flow characteristics and business models as at 1 January 2018 is expected to result in no major difference in the classification of financial assets when compared to the classification under TAS 39.

The Bank has not restated the comparative information for the financial instruments that are under the scope TFRS 9, for the year of 2017 and as of 1 January 2018, the cumulative effect of the first application of the standard has been presented under "Retained Earnings" in the statement of changes in shareholders' equity for the current period.

Classification and measurement of financial instruments:

According to TFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and profit share" (SPPI).

As per TFRS 9, financial assets at fair value through profit or loss, financial assets available for sale and financial assets held to maturity which are the financial instrument categories under TAS 39; are replaced with financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost; respectively.

Upon initial recognition each financial asset shall be classified as either fair value through profit or loss ("FVTPL") amortized cost or fair value through other comprehensive income ("FVOCI"). As for the classification and measurement of financial liabilities, the application of the existing terms of TAS 39 remain largely unchanged under TFRS 9.

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Impairment:

As of 1 January 2018, the Bank will recognize provisions for impairment in accordance with the TFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA as mentioned in the Section 3 Part VII of Explanation on Accounting Policies will be changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

Some modelling works were made in relation to the basic components of Expected Credit Loss in advance of the adoption of TFRS 9, and developed models for Probability of Default (POD) on the basis of various credit portfolio. Credit portfolio is determined in accordance with customer segments constituting the basis of banking activities. Cyclical Probabilities of Default made with these models developed in order to use in the Internal Ratings-Based Approach (IRBA) are converted into Instant Probabilities of Default, and these instant probabilities of default are used to calculate Expected Credit Loss in scope of TFRS 9. Loss Given Default (LGD) calculation reflects state withholding rates and the bank's prior collection performance in unsecured loans. Default Amount (DA) corresponds to the used balance in the reporting date for money loans, and to the balance after the application of the credit conversion rate for Non-cash loans and commitment risks.

Macroeconomic scenarios impacts POD and LGD values. Expected credit loss amount is calculated with 3 different scenarios as Basis, Good and Bad. Probabilities of default and loss given default rate of debtors are calculated based on each scenario.

TFRS 9 replaces the "realized loss" model of TAS 39 with the "expected credit loss" model. The Bank applies a 'three-stage' impairment model depending on the gradual increase in credit risk observed since initial recognition

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

In this scope; basic matters taken into consideration in order to determine the significant increase of credit risk of a financial asset and the transferring to Stage 2 are as follows without being limited to these.

- Default for 30 days and over as of reporting date
- Being in the scope of restructuring
- Performing Close Monitoring
- Assessment of rating impairment

The definition of rating impairment is the comparison of rating at the credit opening date and rating at the reporting date by using the Bank's internal ratings-based rating models, made by the Bank. The rating impairment occurs when the rating calculated at the reporting date exceeds determined threshold values.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The impact of the adoption of TFRS 9 on the financial statements as of 1 January 2018, is recorded. Besides, the Bank calculated deferred tax on the expected credit losses calculated on stage 1 and 2 loans and the impact regarding calculated deferred tax asset was accounted for under equity during transition.

1.6 Explanations on Revenue Standard from TFRS 15 Customer Contracts:

TFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the TAS 18 Revenue standard. The standard became effective on 1 January 2018 and has no material impact on the unconsolidated financial statements of the Bank.

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1.7 Explanations on TFRS 16 Leases Standard

TFRS 16 Leases 8 was published in the Official Gazette dated 16 April 2018 and numbered 29826, to be applied in the accounting periods beginning after 31 December 2018. According to this standard, the difference between operating leases and financial leases has been eliminated and leasing transactions will be shown by the lessee on the balance sheet as the asset (utilization right) and financial debt related to lease payment. The Bank has started its operations to comply with TFRS 16 Leases standard as of January 1, 2019, and the related work is continuing as of 31 December 2018. As of 1 January 2019, no significant impact on the Bank's financial statements is expected during the transition to TFRS 16. The Bank will apply this standard from 1 January 2019, the mandatory application date. The Bank plans not to use the simplified migration application and to rearrange the comparable amounts for the year prior to the first implementation.

2. Explanations on strategy of using financial instruments and foreign currency transactions

The Bank follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Bank's exposure to liquidity risk, currency risk and credit risk while increasing profitability and strengthening the Bank's equity. The assets-liabilities committee (ALCO) manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee.

Gains and losses arising from foreign currency transactions have been recorded in the period in which the transaction took place. Foreign currency denominated monetary assets and liabilities are valued with the period end valuation rates published converting them into Turkish Lira and valuation differences of foreign currencies have been recognized in the income statement under the net foreign exchange income/expense account.

The foreign currency exchange differences resulting from the translation of debt securities issued and monetary financial instruments into Turkish Lira are included in the income statement. There are no foreign currency differences capitalized by the Bank.

3. Investments in associates and subsidiaries

Turkish currency denominated associates and subsidiaries are measured at cost value in accordance with the "Consolidated and Separate Financial Statements" ("TAS 27") and then deducted by provisions for impairment losses, if any, reflected to the accompanying unconsolidated financial statements.

4. Explanations on forward transactions and option contracts and derivative instruments

The Bank enters into forward agreements to decrease its currency risk and to manage its foreign currency liquidity. The Bank classifies its derivative instruments as "Derivative Financial Instruments Held for Hedging Purposes" and "Derivative Financial Instruments Held for Trading" in accordance with TFRS 9. Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as "held for trading" within the framework of TFRS 9, and are reflected in the "Derivative Financial Assets/Liabilities Held for Trading" account in the balance sheet. The Bank has no derivative financial assets/liabilities for hedging purposes as of balance sheet date.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions and swaps are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under 'Trading Income/Loss' line in the income statement.

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Embedded derivatives are accounted as derivative instruments in-line with TFRS 9. If the embedded derivatives are closely related with the host contract, embedded derivatives are accounted for in-line with the relevant standard applicable for the host contract. While choosing the accounting policy under TFRS 9, the Bank has the option to defer the adoption of hedge accounting policy and to continue apply the accounting terms of TAS 39. Within this scope, the Bank shall continue applying the terms of hedge accounting policy specified under TAS 39.

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In addition to this, the Bank enters into profit share rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders' equity, and the ineffective portion is recognised in income statement. The changes recognised in shareholders' equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

The Bank 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 the account of "Hedge Funds". 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.

5. Explanations on profit share income and expense

Profit share income is recognized in the income statement on an accrual basis by using the method of internal rate of return and is accounted under profit share income account in the financial statements. In accordance with the related regulation, the profit share accruals of non-performing loans are cancelled and are not recorded until the profit share income is realized. For the customers who have become non-performing loans after 1/1/2018, which is the transition date of TFRS 9, accruals and rediscounts are not cancelled and calculations are continues under TFRS 9.

The Bank calculates expense accrual in accordance with the unit value calculation method on profit/loss sharing accounts and reflects these amounts in "Funds Collected" account on the balance sheet.

6. Explanations on fees and commission income and expenses

Except for the fees and commission income and expenses obtained for some banking services which are recorded as income when collected, fees and commission income/expenses are reflected in the income statement over the period of the related transaction.

In accordance with the provisions of TAS, commission and fees collected in advance for loans granted are deferred and reflected to the income statement by using the internal rate of return method. Unearned portion of the commission and fees relating to the future periods are recorded to the "Unearned Revenues" account under "Other Liabilities" on the balance sheet.

7. Explanations on financial assets

The Bank classifies and accounts for its financial assets as 'Fair Value Through Profit/Loss', 'Fair Value Through Other Comprehensive Income,' or 'Amortized Cost.' Such financial assets, are recognized and derecognized as per the terms of "Recognition and Derecognition in Financial Statements" under the section three of the "TFRS 9 Financial Instruments" regarding the classification and measurements of financial instruments, published in the Official Gazette numbered 29953 and dated 19 January 2017 by Public Oversight, Accounting and Auditing Standards Authority ("POA"). When financial assets are included in the financial statements for the first time, they are measured at fair value. Transaction costs are initially added to fair value or deducted from fair value at the initial measurement of financial assets other than the "Fair Value at Fair Value Through Profit or Loss".

The Bank recognizes a financial asset in the financial statements only when it becomes a party to the contractual terms of a financial instrument. During the initial recognition of a financial asset, the business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to gains, losses or profit shares that were previously recorded in the financial statements.

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7.1 Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are financial assets that are managed within a business model other than the business model whose objective is achieved by holding contractual cashflows for collection and the business model whose objective is achieved by collecting and selling contractual cash flows. Also, in case that the contractual terms of financial assets do not give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount, such assets are those that are, obtained with the aim of providing profit from the short-term price or other factor fluctuations in the market or are part of a portfolio aiming to obtain short-term profit, regardless of the reason of acquisition.

7.2 Financial Assets at Fair Value Through Other Comprehensive Income:

A financial asset is classified as at fair value through other comprehensive income when the asset is managed within a business model whose objective is achieved by collecting contractual cash flows and selling the financial asset, as well as when the contractual terms of the financial asset give rise on specified dates to cash flows are solely payments of principal and profit share on the principal amount.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition costs that reflect the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with effective profit share method regarding the financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses," which is the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income, are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, or the impairment of the asset. "Unrealized gains and losses" are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, are carried at fair value, in the case that the securities have a quoted market price in an active market and/or the fair values of the securities can be reliably measured. In contrary case, the securities are carried at cost, less provision for impairment.

During initial recognition an entity can make an irrevocable election regarding the presentation of the subsequent changes in the fair value of the investment in an equity instrument, that is not held for trading purposes, in the other comprehensive income. In the case that the entity elects to present the changes as described, dividends arising from the investment is accounted in the financial statements as profit or loss.

7.3 Financial Assets Measured at Amortized Cost:

In the case that a financial asset is held within a business model whose objective is achieved both by collecting contractual cash flows and that the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and profit share on the principal amount, the financial asset is classified as financial asset measured at amortized cost.

Financial Assets Measured at Amortized Cost; are financial assets, other than loans and receivables, which are held for the purpose of custody until maturity, with conditions necessary for such assets to be held until contractual maturity met, including funding ability; and which have fixed or determinable payments and fixed maturities. Financial assets measured at amortized cost are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to Financial Assets measured at amortized cost is reflected in the income statement. As of the balance sheet date, the Bank does not have any financial assets measured at amortized cost.

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7.4 Derivative Financial Assets:

The major derivative instruments utilized by the Bank are foreign currency swaps, cross currency swaps and currency forwards.

Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values.

Derivative financial instruments of the Bank are classified under "Derivative Financial Assets Designated at Fair Value through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value through Other Comprehensive Income". Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, the fair value amounts are classified as "Derivative Financial Assets Designated at Fair Value Through Profit or Loss." The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions. The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

7.5 Loans:

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Profit Share Rate (internal rate of return) Method".

As the Banks's loans and good loans indexed below the amount of TL 40,829 were not able to pass the contractual cash flow test, these loans are recorded under the items which are "Fair Value Through Profit or Loss" account.

8. Explanations on expected credit losses

The Bank allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Bank has started to recognize provisions for classification of loans in accordance with the terms of TFRS 9 according to the "Regulation on The Procedures and Principles For Classification on Loans By Banks and Provisions To Be Set Aside" published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

9. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and there is an intention to collect/pay the related financial assets and liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

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10. Explanations on sale and repurchase agreements and lending of securities

Central Bank of the Republic of Turkey ("CBRT") made some changes on orders for open market transactions ("OMT") and prepared an additional frame contract for participation banks in order to present rent certificates to open market operations of CBRT in accordance with the principles of participation banks. According to this agreement; a new type of transaction was formed which enables participation banks to resell or repurchase rent certificates on their portfolio to CBRT when they are in need of funding or in attempt to evaluate the excess liquidity. In this content, initial OMT transaction was performed with CBRT on 14 June 2013 by selling Treasury Rent Certificates that are recognized in the assets of the Bank in return for conditional repurchasing. From this date on, the Bank performs sale transactions of Treasury Rent Certificates that are recognized in the assets of the balance sheet in return for conditional repurchasing by tendering to purchase auctions held by CBRT with various maturities; and thusly raises funds.

As of 31 December 2018, the Bank has TL 188,003 repurchasing agreements (31 December 2017 – TL 750,524).

11. Explanations on assets held for sale and discontinued operations and related liabilities

As mandated by the Banking Act 5411 Article 57 "banks cannot participate in commercial real-estate and commodity trade with the exception of real-estate and commodity based agreements within the scope of Capital Markets Act No. 2499, and precious metal trade as seen appropriate by the board, and cannot participate in partnerships with firms whose main business activity is commercial real-estate, with the exception of real-estate investment partnerships and companies that finance mortgaged residential estates. The rules and procedures regarding the sales of real-estate and commodities that were acquired due to receivables and debtors' obligations to the bank are determined by the board."

Assets that meet the criteria for classification as assets held for sale are measured at the lower of the carrying amount of assets and fair value less any costs to be incurred for disposal. Assets held for sale are not amortized and presented in the financial statements separately. In order to classify an asset as held for sale, the sale should be highly probable and the asset (or disposal group) should be available for immediate sale in its present condition. Highly saleable condition requires a plan by the management regarding the sale of the asset (or the disposal group) together with an active program for the determination of buyers as well as for the completion of the plan. Also the asset (or the disposal group) should be actively in the market at a price consistent with its fair value. In addition, the sale is expected to be recognized as a completed sale within one year after the classification date and the necessary transactions and procedures to complete the plan should demonstrate the fact that there is remote possibility of making any significant changes in the plan or cancellation of the plan. Various events and conditions may extend the completion period of the disposal over one year. If such delay arises from any events and conditions beyond the control of the entity and there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or disposal group) can remain to be classified as assets (or disposal group) held for sale. Extension of the period necessary to complete the sale, does not avoid the classification of the related asset (or disposal group) to be classified as asset held for sale.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. Discontinued operations are presented separately in the income statement. The Bank has no discontinued operations.

12. Explanations on goodwill and other intangible assets

Intangible assets are stated at cost adjusted for inflation until 31 December 2004, less provision for impairment, if any, and accumulated amortization and amortized with straight-line method.

The other intangible assets of the Bank comprise mainly computer software. The useful lives of such assets acquired prior to 2004 have been determined as 5 years and for the year 2004 and forthcoming years, as 3 years.

There is no goodwill related to associates and subsidiaries.

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13. Explanations on Tangible Assets

Fixed assets are stated at cost adjusted for inflation until 31 December 2004, less accumulated depreciation and provision for impairment, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The annual rates used for amortization are as follows:

Property	2%
Movables, leased assets	6.67% - 20%

Depreciation is calculated on a pro-rata basis for the assets that have been placed in use for less than one year as of the balance sheet date. Leasehold improvements are depreciated over the term of the lease agreements by straight-line method.

If the recoverable amount (the higher of value in use and fair value) of a tangible asset is less than its carrying value, impairment loss is provided and the carrying value is written down to its recoverable amount.

Gains or losses resulting from disposals of the fixed assets are recorded in the income statement as the difference between the net proceeds and net book value of the asset.

Expenses for repair costs are capitalized if the expenditure increases economic life of the asset; other repair costs are expensed as incurred.

The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalized on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product, or to decrease the costs.

Property held for long-term rental yields and/or capital appreciation is classified as investment property. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties.

14. Explanations on Leasing Transactions

Bank as a Lessee

Assets acquired under finance lease contracts are recorded both as an asset and a liability at the beginning date of the lease. The basis for the determination of these amounts is the lower of fair value of the leased asset or the present value of the lease payments. The direct costs incurred during a finance lease transaction are capitalized as additions to the cost of the leased asset. Lease payments include the financing costs incurred due to the leasing transaction and the principal amount of the leased asset for the current period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the leased assets and if a diminution in recoverable value of the leased asset is identified, a provision for impairment is recognized.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Bank as a Lessor

The Bank, as a participation bank, acts as a lessor in finance leasing transactions. The Bank 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.

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15. Explanations on provisions and contingent liabilities

Provisions and contingent liabilities are accounted for in accordance with "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" (TAS 37).

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

As per the "Matching Principle," a provision is provided for the liabilities arising as a result of past events in the period they arise, if it is probable that the liability will be settled and a reliable estimate for the liability amount can be made.

When a reliable estimate of the amount of the obligation cannot be made or it is not probable that an outflow of resources will be required to settle the obligation, the obligation is considered as a "Contingent" liability and is disclosed in the related notes to the financial statements.

16. Explanations on liabilities relating to employee benefits

16.1 Defined benefit plans:

In accordance with existing social legislation, the Bank is required to make severance pay to each employee who has completed over one year of service with the Bank and who retires or quits the employment to receive old age or disability benefits, to fulfill the compulsory military service, because of the marriage (for females) or because of the other compulsive reasons as defined in the laws and whose employment is terminated due to reasons other than resignation or misconduct.

Liabilities amount which is related to "Turkish Accounting Standard on Employee Benefits" ("TAS 19") is reflected accompanying financial statements and these liabilities are calculated by an independent actuary firm.

Bank is accounted all actuarial profit and loss under Statement of other Comprehensive Income.

The Bank's employees are not members of any pension fund, foundations, union or other similar entities.

16.2 Defined contribution plans:

The Bank pays defined contribution plans to publicly administered Social Security Funds for its employees as mandated by the Social Security Association. The Bank has no further payment obligations other than this contribution share. The contributions are recognized as employee benefit expense when they are due.

16.3 Short term benefits to employees:

In accordance with "TAS 19", vacation pay liabilities are defined as "Short Term Benefits to Employees" and accrued as earned.

Bank management calculates bonus accrual if it foresees that the budgeted year-end figures approved by the Board of Directors are attainable.

17. Explanations on taxation

Current Tax

As per the terms of the provisional article 10 added to the Law No. 5520 by the Article 91 of the Law No. 7061, it was established that the rate of 20%, as disclosed in the first paragraph of the Article 32 of the Corporate Tax Law No. 5520, shall be applied as 22% over the corporation income for the tax periods of the years 2018, 2019, 2020 (and for entities that are appointed with special accounting period, for the accounting periods beginning within the relevant year). Council of Ministers is entitled to lower the rate of 22% as disclosed in the first paragraph to a limit of 20%.

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Under this scope, corporate tax with the rate of 22% shall be calculated over the corporate income of the corporate taxpayers for the accounting periods of 2018, 2019 and 2020. In addition, as per provisions of the Income Tax Law, advance tax with the rate of 22% shall be paid by the taxpayers in the aforementioned periods in order to be offset from the corporate tax for the aforementioned tax periods.

The corporate tax rate will be applied as 22% for the years 2018, 2019 and 2020. This rate is applied on taxable income which is calculated by adjusting the income before tax for certain disallowable expenses, tax exempt income and other allowances. No further tax is applicable unless the profit is distributed. According to the tax legislations, advance tax amount shall also be calculated using a rate of 20% for each quarter over tax base and shall be paid, then the advance taxes paid within the year shall be offset from the corporate tax calculated over the yearly corporate tax return for that year.

Withholding taxes is not applied to dividends distributed to companies resident in Turkey or companies who earn income in Turkey through their resident representatives in Turkey. With the Council of Minister's decision numbered 2009/14593 and 2009/14594 which are published in official gazette numbered 27130 and dated 3 February 2009, some deduction rates in 15th and 30th articles of the corporate tax law numbered 5520 were re-determined. In accordance with this, dividends distributed to companies other than companies resident in Turkey or companies who earn income in Turkey through their resident representatives in Turkey are subject to 15% withholding taxes. Double tax treaty agreements are also taken into consideration during the application of withholding taxes on dividends distributed to real persons and to foreign-based taxpayers. Addition of profit to share capital is not considered as dividend distributed therefore no withholding taxes is applied.

With the aforementioned amendment to the law, entities calculate advance tax using a rate of 22% over the quarterly financial income, for the years 2018-2019-2020 and advance tax returns are filed by the fourteenth day of the second month following the related period and taxes are paid by the seventeenth day. Advance taxes are paid within the year belong to that year, and the paid advance taxes are offset from the corporate tax liability calculated over the corporate tax returns in the subsequent year. Any remaining amount of paid advance taxes after the offset can be paid back in cash or it can be deducted from financial loans to the government.

For the purpose of issuance of certificate of leasing immovables to resource institutions, with the sale of asset leasing companies, the scope of Financial Leasing, Factoring and Financing Companies Law No.6361, dated 21 November 2012 in order to lease it back and in case of taking back at the end of the contract, with the sale of financial leasing companies and asset leasing by asset leasing companies, for profit from the sale of the immovable property inherited from the institution applies this rate as 100% and for the immovable is not compulsory to be in assets at least for a period of two years. But the mentioned immovable's; except in case of failure to fulfill the obligations arising from the source institution, the lesser or leasing agreement, immovable in question by the asset leasing company, in case of selling a third person or institutions, these immovable's with the carrying value before its transfer to resource institution or asset leasing in lesser or asset leasing company, in mentioned institutions taking into consideration the total amount of depreciation is taxable for corporation engaged in the sale.

Corporate tax returns are filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes is paid in one installment by the end of that month.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. However, losses cannot be carried back to offset profits from previous periods. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

In Turkey, there is no procedure for a final and definite agreement on tax assessments.

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Deferred Tax

For taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, as per the provisions of "Turkish Accounting Standard on Income Taxes" ("TAS 12"), the Bank calculates deferred tax liability over all taxable temporary differences and deferred tax asset over taxable temporary differences, apart from the provisions for Expected Credit Losses for 12-Months (Stage 1) and for Lifetime Credit Losses (Stage 2) with significant increase in the credit risk after initial recognition, to the extent that is probable that taxable profit will be available in subsequent periods. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis. The tax effect regarding the items directly accounted in equity are also reflected in equity. The rate is used in the calculation of deferred tax assets and liabilities was 22% over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and 20% over temporary timing differences expected to be reversed in 2021 and thjpe following years (2017: 22%-20%).

18. Explanations on additional disclosures on borrowings

Borrowings other than funds collected are measured at amortized cost using the internal rate of return method after the initial recognition. The Bank does not apply hedging techniques on related borrowings.

There are no debt securities issued by the Bank.

The Bank has not issued convertible bonds.

19. Explanations on share certificates issued

There is no significant amount of transaction costs on Bank about share certificates.

20. Explanations on acceptances and availed drafts

Acceptances and availed drafts are realized simultaneously with the payment dates of the customers and they are presented as commitments in off-balance sheet accounts.

21. Explanations on government grants

There are no government grants received by the Bank.

22. Explanations on segment reporting

The Bank operates in three main segments; Corporate and Commercial Banking; Retail Banking; International Banking, Treasury and Investment Banking. Each segment operates with unique products, and the operational results are followed based on these segments.

Segment reporting is disclosed in Section Four, Note 10.

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23. Explanations on prior period accounting policies which are not applicable in the current period

"TFRS 9 Financial Instruments" standard was introduced instead of the "TAS 39 Financial Instruments: Recognition and Measurement" standard starting from January 1, 2018. The following are the accounting policies which are no longer valid for the TFRS 9 transition. In the prior periods, the Bank classified its financial assets as "Financial assets at fair value through profit or loss", "Available-for-sale financial assets", "Loans and receivables" or "Held-to-maturity financial assets".

23.1 Financial assets at fair value through profit or loss:

This category has two sub categories which are "Trading financial assets" and "Financial assets designated at fair value through profit/loss at initial recognition".

Trading financial assets are financial assets which are either acquired for generating a profit from short-term fluctuations in prices or dealers' margin, or are financial assets included in a portfolio and derivative instruments in which a pattern of short-term profit making exists.

Trading financial assets are initially recognized at transaction prices, which are assumed to be the fair value, and subsequently measured at fair value. All gains and losses arising from these valuations are reflected in the income statement.

Other than trading financial assets, the Bank has no financial assets at fair value through profit or loss.

23.2 Financial assets available for sale:

Financial assets available for sale are initially recognized at cost; which reflects their fair values; including the transaction costs. Financial assets classified as available for sale financial assets which do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less impairment, if any.

Financial assets available-for-sale gains and losses are valued using internal rate of return and recorded in the income statement as profit share income. Financial assets available-for-sale profit share discounts recognized in the profit/share account, current value differences recognized in the "securities value increase fund" under the shareholders' equity. When these securities are disposed of, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement.

23.3 Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market and are not classified as held for trading, financial assets at the fair value through profit or loss or as available for sale. Loans and receivables are initially recognized at cost, which is assumed to reflect their fair value and subsequently recognized at the amortized cost calculated using the internal rate of return method. The expenses incurred for the loans and receivables received as collateral are not considered as transaction costs and are recognized in the expense accounts.

23.4 Held to maturity financial assets:

Held to maturity financial assets are financial assets with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity that are not classified under 'Loans and receivables'. Held to maturity financial assets are initially recognized at cost which is assumed to reflect their fair value, and subsequently carried at 'Amortized Cost' using the 'Internal Rate of Return'. Profit share income from held to maturity financial assets is reflected in the income statement. The Bank does not have any held to maturity financial assets as of the balance sheet date.

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23.5 Explanations on impairment of financial assets

At each balance sheet date an assessment is made as to whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, impairment is provided for financial asset categories as explained below.

Loans and receivables:

If there is objective evidence that the loans might not be collected, the Bank reclassifies such loans to III. IV. and V. groups and provides impairment reserve in accordance with the Communiqué of "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published on 1 November 2006 in the Official Gazette No: 26333. For the loans with poor financial position and/or payment capability, the Bank can provide a specific impairment reserve in excess of the amounts calculated using the minimum required rates for the related group.

Collections related to the provisions provided in the current period for such loans are deducted from 'Provisions for Loan Losses and Other Receivables' account in the income statement. Subsequent recoveries of amounts previously written off or provisions made in prior periods are included in "Other Operating Income" in the income statement.

Financial assets held to maturity:

If there is objective evidence indicating that the value of financial assets held to maturity is impaired, the amount of the loss is measured as the difference between the present values of future estimated cash flows discounted using the original profit share and the carrying value; provision is made for impairment and the provision is associated with expense accounts.

Financial assets available for sale:

If there is objective evidence indicating that the fair value of an available for sale financial asset, for which decreases in the fair value has been accounted under the equity, has been impaired then the total loss which was accounted directly in the equity is transferred from equity to the income statement.

Impairment losses recognized in the income statement related to the investments in equity instruments classified as available for sale financial assets cannot be reversed through the income statement. 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, 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 cannot be reversed.

24. Explanations on other matters

There are no other matters to be disclosed by the Bank.

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SECTION FOUR INFORMATION ON FINANCIAL STRUCTURE

1. Explanations on shareholders' equity

Shareholders' equity amount and capital adequacy standard ratio are calculated within the framework of "Regulation Regarding Equities of Banks" and "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy". As of December 31, 2018, the shareholders' equity of the Bank is TL 7,463,883 (31 December 2017: TL 5,853,623) and the capital adequacy standard ratio is 17.68% (31 December 2017: 17.66%).

1.1 Components of shareholders' equity:

Current Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	3,500,000	
Share Premium	22,933	
Reserves	1,107,196	
Other Comprehensive Income according to TAS	-	
Profit	905,352	
Current Period Profit	869,812	
Prior Period Profit	35,540	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	5,535,481	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	88,537	
Leasehold Improvements on Operational Leases (-)	54,010	
Goodwill Netted with Deferred Tax Liabilities	-	-
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	129,685	-
Net Deferred Tax Asset/Liability (-)	-	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	7,583	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	13,296	
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	2,678	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	
Mortgage Servicing Rights not deducted (-)	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	
Other items to be Defined by the BRSA (-)	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	
Total Deductions from Common Equity Tier I Capital	295,789	
Total Common Equity Tier I Capital	5,239,692	

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Current Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	5,239,692	-
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1,847,727	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	460,610	-
Total Deductions from Tier II Capital	2,308,337	-
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	2,308,337	-
Total Equity (Total Tier I and Tier II Capital)	7,548,029	-

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Current Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
Total Tier I Capital and Tier II Capital (Total Equity)		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	
Other items to be Defined by the BRSA (-)	84,146	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital)		
During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	7,463,883	
Total Risk Weighted Assets	42,206,862	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	12.41	
Tier I Capital Ratio (%)	12.41	
Capital Adequacy Ratio (%)	17.68	
BUFFERS		
Bank-specific total CET1 Capital Ratio	1.88	
Capital Conservation Buffer Ratio (%)	1.88	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	6.41	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	460,610	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	460,610	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-In Capital To Be Entitled For Compensation After All Creditors	3,100,000	
Share Premium	22,933	
Reserves	839,017	
Other Comprehensive Income According To TAS	12,609	
Profit	673,991	
Current Period Profit	673,991	
Prior Period Profit	-	
Bonus Shares From Associates, Affiliates And Joint-Ventures Not Accounted In Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	4,648,550	
Deductions From Common Equity Tier I Capital		
Valuation Adjustments Calculated As Per The Article 9. (I) Of The Regulation On Bank Capital	-	
Current And Prior Periods' Losses Not Covered By Reserves, And Losses Accounted Under Equity According To TAS	54,721	
Leasehold Improvements On Operational Leases	47,518	
Goodwill Netted With Deferred Tax Liabilities	-	
Other Intangible Assets Netted With Deferred Tax Liabilities Except Mortgage Servicing Rights	95,210	119,013
Net Deferred Tax Asset/Liability	-	-
Differences Arise When Assets And Liabilities Not Held At Fair Value, Are Subjected To Cash Flow Hedge Accounting	-	
Total Credit Losses That Exceed Total Expected Loss Calculated According To The Regulation On Calculation Of Credit Risk By Internal Ratings Based Approach	-	
Securitization Gains	-	
Unrealized Profit And Losses From Changes In Bank's Liabilities' Fair Values Due To Changes In Creditworthiness	-	
Net Amount Of Defined Benefit Plans	-	
Direct And Indirect Investments Of The Bank On Its Own Tier I Capital	2,678	
Shares Obtained Against Article 56, Paragraph 4 Of The Banking Law	-	
Total Of Net Long Positions Of The Investments In Equity Items Of Unconsolidated Banks And Financial Institutions Where The Bank Owns 10% Or Less Of The Issued Share Capital Exceeding The 10% Threshold Of Above Tier I Capital	-	
Total Of Net Long Positions Of The Investments In Equity Items Of Unconsolidated Banks And Financial Institutions Where The Bank Owns 10% Or More Of The Issued Share Capital Exceeding The 10% Threshold Of Above Tier I Capital	-	
Mortgage Servicing Rights Exceeding The 10% Threshold Of Tier I Capital	-	
Net Deferred Tax Assets Arising From Temporary Differences Exceeding The 10% Threshold Of Tier I Capital	-	
Amount Exceeding The 15% Threshold Of Tier I Capital As Per The Article 2, Clause 2 Of The Regulation On Measurement And Assessment Of Capital Adequacy Of Banks	-	
The Portion Of Net Long Position Of The Investments In Equity Items Of Unconsolidated Banks And Financial Institutions Where The Bank Owns 10% Or More Of The Issued Share Capital Not Deducted From Tier I Capital	-	
Mortgage Servicing Rights Not Deducted	-	
Excess Amount Arising From Deferred Tax Assets From Temporary Differences	-	
Other Items To Be Defined By The BRSA	-	
Valuation Adjustments Calculated As Per The Article 9. (I) Of The Regulation On Bank Capital	-	
Total Deductions From Common Equity Tier I Capital	200,127	
Total Common Equity Tier I Capital	4,448,423	

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock Not Included In Common Equity Tier I Capital And The Related Share Premiums	-	-
Debt Instruments And The Related Issuance Premiums Defined By The BRSA	-	-
Debt Instruments And The Related Issuance Premiums Defined By The BRSA (Covered By Temporary Article 4)	-	-
Additional Tier I Capital Before Deductions	-	-
Deductions From Additional Tier I Capital	-	-
Direct And Indirect Investments Of The Bank On Its Own Additional Tier I Capital (-)	-	-
Investments In Equity Instruments Issued By Banks Or Financial Institutions Invested In Bank's Additional Tier I Capital And Having Conditions Stated In The Article 7 Of The Regulation	-	-
Total Of Net Long Positions Of The Investments In Equity Items Of Unconsolidated Banks And Financial Institutions Where The Bank Owns 10% Or Less Of The Issued Share Capital Exceeding The 10% Threshold Of Above Tier I Capital (-)	-	-
The Total Of Net Long Position Of The Direct Or Indirect Investments In Additional Tier I Capital Of Unconsolidated Banks And Financial Institutions Where The Bank Owns More Than 10% Of The Issued Share Capital (-)	-	-
Other Items To Be Defined By The BRSA (-)	-	-
Items To Be Deducted From Tier I Capital During The Transition Period		
Goodwill And Other Intangible Assets And Related Deferred Taxes Not Deducted From Tier I Capital As Per The Temporary Article 2, Clause 1 Of The Regulation On Measurement And Assessment Of Capital Adequacy Of Banks (-)	23,804	-
Net Deferred Tax Asset/Liability Not Deducted From Tier I Capital As Per The Temporary Article 2, Clause 1 Of The Regulation On Measurement And Assessment Of Capital Adequacy Of Banks (-)	-	-
Deduction From Additional Tier I Capital When There Is Not Enough Tier II Capital (-)	-	-
Total Deductions From Additional Tier I Capital	23,804	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	4,424,619	
TIER II CAPITAL		
Debt Instruments And The Related Issuance Premiums Defined By The BRSA	1,322,272	
Debt Instruments And The Related Issuance Premiums Defined By The BRSA (Covered By Temporary Article 4)	-	
Provisions (Amounts Explained In The First Paragraph Of The Article 8 Of The Regulation On Bank Capital)	277,848	
Total Deductions From Tier II Capital	1,600,120	
Deductions From Tier II Capital		
Direct And Indirect Investments Of The Bank On Its Own Tier II Capital (-)	-	
Investments In Equity Instruments Issued By Banks And Financial Institutions Invested In Bank's Tier II Capital And Having Conditions Stated In The Article 8 Of The Regulation	-	
Total Of Net Long Positions Of The Investments In Equity Items Of Unconsolidated Banks And Financial Institutions Where The Bank Owns 10% Or Less Of The Issued Share Capital Exceeding The 10% Threshold Of Above Tier I Capital (-)	-	
The Total Of Net Long Position Of The Direct Or Indirect Investments In Additional Tier I Capital And Tier II Capital Of Unconsolidated Banks And Financial Institutions Where The Bank Owns 10% Or More Of The Issued Share Capital Exceeding The 10% Threshold Of Tier I Capital	-	
Other Items To Be Defined By The BRSA (-)	-	
Total Deductions From Tier II Capital	-	
Total Tier II Capital	1,600,120	
Total Equity (Total Tier I And Tier II Capital)	6,024,739	

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
Total Tier I Capital and Tier II Capital (Total Equity)		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	
Other items to be Defined by the BRSA (-)	171,117	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital)		
During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	5,853,622	
Total Risk Weighted Assets	33,138,332	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	13.42	
Tier I Capital Ratio (%)	13.35	
Capital Adequacy Ratio (%)	17.66	
BUFFERS		
Bank-specific total CET1 Capital Ratio	1.25	
Capital Conservation Buffer Ratio (%)	1.25	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	7.35	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	277,848	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	277,848	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.2. Approaches applied to assess the adequacy of internal capital requirement in terms of current and future activities

Internal evaluation process is established for continuously evaluating and maintaining the types, components and distribution of the adequate level of capital in order to provide for various risks exposed to or to be exposed to. The final purpose of the evaluation process of the internal capital requirement, is to define and evaluate all the risks included or not in the calculations of the legal capital requirements, within the frame of the activities of the bank, and to provide the availability of adequate capital in order to cover these risks and the application of the risk management techniques. The results obtained in this evaluation process by taking into consideration, the Banks' growth strategy, assets-liabilities structure, funding sources, liquidity position, foreign currency position, the effect of the price and market fluctuations on the capital, which are among the variables of the economy, aim to provide the continuity of the mentioned capital adequacy level at the determined level in compliance with the Banks' risk profile and risk appetite.

Within this scope, capital structure is reviewed as based on the frame of the activities and risks exposed to, and the internal capital requirement, probable to occur within the direction of targets and strategies of the Bank is evaluated. This evaluation includes interest rate risk, concentration risk, liquidation risk, reputation risk, residual risk, country risk and strategic risk arising of the banking books as well as market, credit and operational risks. Capital requirement internal evaluation is evaluated to be a developing process and the development areas for the future period are determined and plans are prepared.

2. Explanations on Credit Risk:

Credit risk means the risks and damages to arise as a result of partial or complete non-fulfillment of the obligations timely by non-compliance of the counter party with the requirements of the agreement concluded with the Bank.

With regards to the credit risk, the debtor or the group of debtors is subjected to risk limitation. The upper limit of the rate of the credits granted to the companies in one sector to the total credits is determined annually by the Board of Directors and is updated as required.

The credit risk which the Bank is subjected to outside of Turkey is followed up by the Board of Directors within the frame of the determined limits on the basis of countries and regions. Within this scope, the total risk which the Bank had taken in the foreign country or region, the total of the credit risk taken by the banks residing abroad and/or their branches in Turkey, the total risks of the credits generated to the people residing abroad or with foreign nationality, the risk total taken over the corporate customers and/or banks to which the partners residing in Turkey but of which the principal shareholder or shareholders reside in another country, had given guarantee and in required cases, the risk total taken by the Bank in Turkey should be followed up.

The risks and limits arising of the treasury transactions and customer based commercial transactions are followed up daily. Moreover, the control of the limits allocated as based on the degrees of the correspondent banks and the maximum risk that the Bank can take within its equities are also performed daily. The risk limits relevant to the transactions performed daily are determined and the risk intensity relevant to off the balance sheet transactions are being followed up.

As provided for in the Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans, the credit worthiness of the debtors of the loans and the other receivables are followed up at regular intervals, in case of early determination of a probable repayment problem, the credit limits are redefined and additional guarantees are taken and this way the prevention of the bank's loss is aimed. The account statement documents for the loan generations are taken as defined in the legislation. The guarantees are taken within the frame of the relevant legislation, by consideration of the quality of the credit and the financial structure of the company and as based on the allocation decision taken by the credit committee.

Futures and option contracts and other similar contract positions are not held.

The indemnified non-cash loans are subject to the same risk weight as the unpaid credits, in accordance with the "Regulation on the Procedures and Principles for the Determination of the Qualifications of Credits and Other Receivables in Banks and the Provisions to be Forged". Renewed and restructured loans are monitored in accordance with the methods set out in the relevant legislation.

Foreign trade financing and inter-banks loan transactions are performed by a wide network of correspondents and the country risks, limits, correspondent risks and limits are regularly evaluated within this scope.

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There is no important credit risk concentration when evaluated together with the financial activities of the other financial institutes.

The Bank's top 100 and 200 cash loan customers represent 26% and 33% of the total cash loan portfolio, respectively.

The Bank's top 100 and 200 non-cash loan customers represent 40% and 48% of the total non-cash loan portfolio, respectively.

The Bank's top 100 and 200 cash and non-cash loan customers represent 25% and 31% of the total cash and non-cash loan portfolio, respectively.

Exposure Categories (Current Period)	Period end Risk Amount ^(*)	Average Risk Amount ^(**)
Conditional and unconditional exposures to central governments or central banks	14,335,998	10,991,863
Conditional and unconditional exposures to regional governments or local authorities	-	-
Conditional and unconditional exposures to administrative bodies and noncommercial undertakings	-	-
Conditional and unconditional exposures to multilateral development banks	-	-
Conditional and unconditional exposures to international organizations	-	-
Conditional and unconditional exposures to banks and brokerage houses	11,557,943	8,793,292
Conditional and unconditional exposures to corporates	12,719,675	12,583,436
Conditional and unconditional retail exposures	8,545,598	8,809,967
Conditional and unconditional exposures secured by real estate property	15,069,170	15,366,306
Past due items	148,718	119,227
Items in regulatory high-risk categories	137,339	58,704
Exposures in the form of bonds secured by mortgages	-	-
Securitization positions	-	-
Short term exposures to banks, brokerage houses and corporates	-	-
Exposures in the form of collective investment undertakings	110,567	139,501
Equity share investments	-	-
Other items	7,079,316	4,797,221
Total	69,704,324	61,659,517

^(*) Includes total risk amount before the effect of credit risk mitigation but after credit conversions.

^(**) Average risk amounts are the arithmetical average of the amounts in monthly reports prepared starting from the date of publication of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

Exposure Categories (Prior Period)	Period end Risk Amount ^(*)	Average Risk Amount ^(**)
Conditional and unconditional exposures to central governments or central banks	11,723,152	10,297,058
Conditional and unconditional exposures to regional governments or local authorities	-	-
Conditional and unconditional exposures to administrative bodies and noncommercial undertakings	-	-
Conditional and unconditional exposures to multilateral development banks	-	-
Conditional and unconditional exposures to international organizations	-	-
Conditional and unconditional exposures to banks and brokerage houses	6,144,711	6,311,543
Conditional and unconditional exposures to corporates	10,176,818	9,738,936
Conditional and unconditional retail exposures	7,876,889	6,909,911
Conditional and unconditional exposures secured by real estate property	14,381,976	13,373,927
Past due items	18,211	64,317
Items in regulatory high-risk categories	7,299	21,853
Exposures in the form of bonds secured by mortgages	-	-
Securitization positions	-	-
Short term exposures to banks, brokerage houses and corporates	-	-
Exposures in the form of collective investment undertakings	157,276	104,576
Stock Investments	-	-
Other items	3,862,084	3,612,594
Total	54,348,416	50,434,715

^(*) Includes total risk amount before the effect of credit risk mitigation but after credit conversions.

^(**) Average risk amounts are the arithmetical average of the amounts in monthly reports according to the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

2.1. Profile of significant exposures in major regions:

	Conditional and unconditional exposures to central governments or banks	Conditional and unconditional exposures to banks and brokerages	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due items	Items in regulatory high-risk categories	Exposures in the form of collective investment undertakings	Other	Total
Current Period ^(*)	14,330,764	7,143,346	12,625,854	8,528,354	14,900,002	148,049	137,339	81,584	-	57,895,292
Domestic										
European Union (EU) Countries	-	619,986	1,733	7,514	28,575	-	-	-	-	657,808
OECD Countries ^(**)	-	1,454,388	1,067	183	6,246	-	-	-	-	1,461,884
Off-Shore Banking Regions	-	63,002	25,733	4,044	75,875	-	-	-	-	168,654
USA, Canada	-	1,414,111	200	70	1,639	-	-	-	-	1,416,020
Other Countries	5,234	863,110	65,088	5,433	56,833	669	-	28,983	-	1,025,350
Associates, Subsidiaries and Joint – Ventures	-	-	-	-	-	-	-	-	522,950	522,950
Unallocated	-	-	-	-	-	-	-	-	-	-
Assets/Liabilities ^(***)	14,335,998	11,557,943	12,719,675	8,545,588	15,069,170	148,718	137,339	110,567	6,556,366	65,563,366
Total										69,704,324

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

^(**) Includes OECD countries other than EU countries, USA and Canada.

^(***) Includes assets and liability items that can not be allocated on a consistent basis.

	Conditional and unconditional exposures to central governments or banks	Conditional and unconditional exposures to banks and brokerages	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due items	Items in regulatory high-risk categories	Exposures in the form of collective investment undertakings	Other	Total
Prior Period ^(*)	11,723,152	3,803,495	10,123,609	7,848,907	14,287,876	18,208	7,299	138,925	-	47,951,471
Domestic										
European Union (EU) Countries	-	614,032	2,954	2,420	12,431	-	-	-	-	631,837
OECD Countries ^(**)	-	673,241	840	344	976	-	-	-	-	675,401
Off-Shore Banking Regions	-	275,384	-	120	831	-	-	3,824	-	280,159
USA, Canada	-	330,188	-	92	1,162	1	-	-	-	331,443
Other Countries	-	448,371	49,415	25,006	78,700	2	-	14,527	-	616,021
Associates, Subsidiaries and Joint – Ventures	-	-	-	-	-	-	-	-	377,647	377,647
Unallocated	-	-	-	-	-	-	-	-	-	-
Assets/Liabilities ^(***)	11,723,152	6,144,711	10,176,818	7,876,889	14,381,976	18,211	7,299	157,276	3,484,437	54,348,416
Total										

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

^(**) Includes OECD countries other than EU countries, USA and Canada.

^(***) Includes assets and liability items that can not be allocated on a consistent basis.

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

2.2. Risk profile by sectors or counterparties

Current Period	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional governments or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral development banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional receivables from corporates	Conditional and unconditional receivables secured by mortgages	Conditional and unconditional receivables secured by retail receivables	Conditional and unconditional receivables secured by other receivables	Receivables defined in high risk category by BRSA	Securities collateralized by mortgages	Securities collateralized by other positions	Short-term receivables from brokerage houses and corporates	Investments in collective investment funds	Other receivables	TL	FC	Total ^(*)
Agriculture	-	-	-	-	-	-	162,292	127,432	170,992	887	165	-	-	-	-	-	369,171	92,597	461,768
Farming and Stockbreeding	-	-	-	-	-	-	141,219	89,493	119,124	514	165	-	-	-	-	-	271,617	78,898	350,515
Forestry	-	-	-	-	-	-	21,057	37,653	51,481	373	-	-	-	-	-	-	96,874	13,690	110,564
Fishery	-	-	-	-	-	-	16	286	387	-	-	-	-	-	-	-	680	9	689
Manufacturing	-	-	-	-	-	-	5,571,102	2,360,429	2,934,869	27,184	6,139	-	-	-	-	-	4,680,606	6,219,117	10,899,723
Mining and Quarrying	-	-	-	-	-	-	655,519	442,318	466,638	4,931	1,496	-	-	-	-	-	934,316	637,646	1,571,962
Production	-	-	-	-	-	-	2,419,317	1,807,383	2,212,894	21,775	3,778	-	-	-	-	-	3,481,545	2,983,662	6,465,207
Electricity, Gas and Water	-	-	-	-	-	-	2,495,206	110,728	255,337	418	865	-	-	-	-	-	264,745	2,597,809	2,862,554
Construction	-	-	-	-	-	-	2,619,301	1,308,575	3,178,670	33,537	13,240	-	-	-	-	-	4,661,653	2,491,670	7,153,323
Services	14,335,998	-	-	-	-	-	3,402,598	3,070,787	3,940,959	64,328	36,570	-	-	-	110,567	-	10,459,392	26,060,358	36,519,750
Wholesale and Retail Trade	-	-	-	-	-	-	1,741,363	2,052,541	2,609,256	43,163	33,816	-	-	-	-	-	4,520,753	1,959,386	6,480,139
Accommodation and Dining	-	-	-	-	-	-	102,139	84,121	240,799	5,366	1,168	-	-	-	-	-	209,585	224,008	433,593
Transportation and Telecom.	-	-	-	-	-	-	871,931	457,554	331,670	10,364	343	-	-	-	-	-	730,921	940,941	1,671,862
Financial Institutions	-	-	-	-	-	-	3,252	709	3,474	1	-	-	-	-	110,567	-	3,716,381	22,295,563	26,011,944
Real Estate and Rental Services	-	-	-	-	-	-	329,550	101,156	269,928	1,111	302	-	-	-	-	-	381,393	320,654	702,047
Professional Services	-	-	-	-	-	-	37	357	217	-	-	-	-	-	-	-	611	0	611
Educational Services	-	-	-	-	-	-	81,693	55,495	158,899	42	-	-	-	-	-	-	193,728	102,401	296,129
Health and Social Services	-	-	-	-	-	-	272,633	318,854	326,716	4,281	941	-	-	-	-	-	706,020	217,405	923,425
Others	-	-	-	-	-	-	964,382	1,678,375	4,843,680	22,782	81,225	-	-	-	-	-	7,079,316	9,444,110	14,669,760
Total	14,335,998	-	-	-	-	-	12,719,675	8,545,598	15,069,170	148,718	137,339	-	-	-	110,567	-	29,614,932	40,089,392	69,704,324

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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Prior Period	Conditional and unconditional receivables from central governments or local banks	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from banks	Conditional and unconditional receivables from multilateral development banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerages	Conditional and unconditional receivables from retail corporates	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BSK	Securities collateralized by mortgages	Securitization positions	Short-term receivables from banks, brokerages and corporates	Investments similar to collective investment funds	Other receivables	TL	FC	Total ^(*)
Agriculture	-	-	-	-	-	-	26,832	67,001	92,983	189	129	-	-	-	-	136,914	50,220	187,134
Farming and Stockbreeding	-	-	-	-	-	-	16,351	31,712	44,691	66	-	-	-	-	-	60,200	32,620	92,820
Forestry	-	-	-	-	-	-	10,457	32,412	47,808	123	129	-	-	-	-	73,367	17,562	90,929
Fishery	-	-	-	-	-	-	-	2,877	484	-	-	-	-	-	-	3,347	38	3,385
Manufacturing	-	-	-	-	-	-	1,361,540	918,037	1,256,538	4,074	3,932	-	-	-	-	2,031,799	1,512,322	3,544,121
Mining and Quarrying	-	-	-	-	-	-	254,543	169,297	165,850	629	125	-	-	-	-	345,072	246,372	591,444
Production	-	-	-	-	-	-	752,979	682,853	1,036,530	3,444	3,807	-	-	-	-	1,404,541	1,075,072	2,479,613
Electricity, Gas and Water	-	-	-	-	-	-	354,018	65,887	53,158	1	-	-	-	-	-	282,186	190,878	473,064
Construction	-	-	-	-	-	-	1,369,793	893,329	879,668	5,128	556	-	-	-	-	2,375,625	772,849	3,148,474
Services	11,723,152	-	-	-	-	-	6,144,711	2,202,692	1,910,385	5,387	1,716	-	-	157,276	-	7,441,366	16,110,338	23,551,704
Wholesale and Retail Trade	-	-	-	-	-	-	1,136,399	863,704	1,318,295	4,253	1,463	-	-	-	-	2,531,426	792,688	3,324,114
Accommodation and Dining	-	-	-	-	-	-	65,364	54,671	93,219	189	5	-	-	-	-	145,646	67,802	213,448
Transportation and Telecom.	-	-	-	-	-	-	687,406	214,529	182,450	626	89	-	-	-	-	612,783	472,317	1,085,100
Financial Institutions	11,723,152	-	-	-	-	-	1,032	1,331	1,283	-	-	-	-	157,276	-	3,440,497	14,588,288	18,028,785
Real Estate and Rental Services	-	-	-	-	-	-	95,046	32,815	62,258	1	79	-	-	-	-	121,798	68,401	190,199
Professional Services	-	-	-	-	-	-	311	150	624	-	-	-	-	-	-	1,072	13	1,085
Educational Services	-	-	-	-	-	-	20,784	22,293	30,285	16	52	-	-	-	-	69,654	3,776	73,430
Health and Social Services	-	-	-	-	-	-	196,350	216,892	221,971	302	28	-	-	-	-	518,490	117,053	635,543
Others	-	-	-	-	-	-	5,215,961	4,592,137	10,242,402	3,433	966	-	-	-	-	3,862,084	2,880,923	23,916,983
Total	11,723,152	-	-	-	-	-	10,176,818	7,876,889	14,381,976	18,211	7,299	-	-	157,276	-	33,021,764	21,326,652	54,348,416

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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2.3. Analysis of maturity-bearing exposures according to remaining maturities :

Exposure Categories ^(*) – Current Period	Time to maturity				
	1 month	1–3 months	3–6 months	6–12 months	Over 1 year
Conditional and unconditional exposures to central governments or central banks	194,001	365,306	155,773	-	5,351,089
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	-	-	-	-	-
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
Conditional and unconditional exposures to international organizations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	2,114,939	1,561,667	923,323	303,169	235,198
Conditional and unconditional exposures to corporates	2,779,392	537,376	1,446,766	1,408,712	6,522,535
Conditional and unconditional retail exposures	1,375,118	704,468	1,080,494	1,723,192	3,520,864
Conditional and unconditional exposures secured by real estate property	832,833	568,743	1,188,187	2,224,151	10,255,256
Past due exposures	-	-	-	-	-
Items in regulatory high-risk categories	95,104	1,498	1,635	2,745	36,357
Items in regulatory high-risk categories	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	11,227	16,545	82,795
Stock Investments	-	-	-	-	-
Other items	-	-	-	-	-
Total	7,391,387	3,739,058	4,807,405	5,678,514	26,004,094

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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Exposure categories ^(*) – Prior Period	Time to maturity				
	1 month	1–3 months	3–6 months	6–12 months	Over 1 year
Conditional and unconditional exposures to central governments or central banks	733,495	-	-	-	3,976,618
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-
Conditional and unconditional exposures to administrative bodies and noncommercial undertakings	-	-	-	-	-
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
Conditional and unconditional exposures to international organizations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	278,390	468,873	472,012	154,059	1,195,356
Conditional and unconditional exposures to corporates	2,715,591	207,537	365,881	910,098	5,945,187
Conditional and unconditional retail exposures	1,539,990	204,543	381,882	690,451	4,879,665
Conditional and unconditional exposures secured by real estate property	2,344,188	139,328	441,883	957,315	10,499,262
Past due items	-	-	-	-	-
Items in regulatory high-risk categories	125	2,418	40	460	4,256
Exposures in the form of bonds secured by mortgages					
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	157,276	-	-	-	-
Stock Investments	-	-	-	-	-
Other items	-	-	-	-	-
Total	7,769,055	1,022,699	1,661,698	2,712,383	26,500,344

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

2.4. Exposure Categories

In compliance with the 7th Article of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks, determination of the risk weights in calculation of the risk weighted sums is performed based on the credit ratings provided by the rating companies.

The ratings of an international credit rating agency are used for the Banks and Corporate Receivables asset class, which is limited to the receivables that are resident abroad. Receivables from banks are analyzed in two separate receivable classes according to their original maturity. If the original maturity is 3 months or less, they are assigned to "Short Term Receivables from Banks and Intermediary Institutions", if it is more than 3 months it is assigned to "Receivables from Banks and Intermediary Institutions". The banks and institutions established within the country are evaluated as unrated.

The ratings given by the international credit rating agency are used to determine the risk weighted asset class. The ratings of the credit rating agency are being used for Banks and Corporate Receivables asset class limited to the counterparties which are resident abroad.

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"Credit Quality Levels" corresponding to the ratings of the credit rating institution are given in the following table.

Credit Quality Grade	Fitch Rating Risk	Exposure Categories			
		Exposures to Central Governments or Central Banks	Exposures from Banks and Brokerage Houses		Exposures to Corporates
			Exposures with Remaining Maturities Less Than 3 Months	Exposures with Remaining Maturities More Than 3 Months	
1	AAA	%0	%20	%20	%20
	AA+				
	AA				
	AA-				
2	A+	%20	%20	%50	%50
	A				
	A-				
3	BBB+	%50	%20	%50	%100
	BBB				
	BBB-				
4	BB+	%100	%50	%100	%100
	BB				
	BB-				
5	B+	%100	%50	%100	%150
	B				
	B-				
6	CCC+	%150	%150	%150	%150
	CCC				
	CCC-				
	CC				
	C				
Unrated	D	%100	%20 ^(*)	%50 ^(*)	%100
	Unrated				

^(*) This is used under the condition of not being less than the implemented one in the centralized management of the Bank's located country.

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2.5. Credit risk using the standard approach:

2.5.1. Credit risk exposed and credit risk mitigation effects:

Risk Classes	Receivable before CCF and CRM		Receivable post- CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Receivables from central governments and Central Banks	14,141,997	-	16,844,828	-	2,742,414	16
2 Receivables from regional and local government	-	-	-	-	-	-
3 Receivables from administrative bodies and non-commercial entities	-	-	-	-	-	-
4 Receivables from multilateral development banks	-	-	-	-	-	-
5 Receivables from international organizations	-	-	-	-	-	-
6 Receivables from banks and brokerage houses	11,126,609	1,139,377	11,126,609	263,330	5,661,052	50
7 Receivables from corporate	9,554,084	6,517,105	8,546,257	3,150,548	11,500,712	98
8 Retail receivables	6,615,373	5,992,437	5,720,867	1,920,640	5,608,992	73
9 Receivables secured by residential property	6,402,362	698,200	6,245,509	299,413	2,276,070	35
10 Receivables secured by commercial property	7,734,732	1,323,497	7,144,899	628,678	4,920,010	63
11 Non-performing receivables	148,718	-	129,395	-	86,495	67
12 Receivables in high-risk categories	137,339	-	102,850	-	154,145	150
13 Mortgage-backed securities	-	-	-	-	-	-
14 Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-
15 Investments similar to collective investment funds	110,567	-	110,567	-	59,344	54
16 Other receivables	7,079,316	-	7,079,316	-	3,748,296	53
17 Equity share investments	-	-	-	-	-	-
18 Total	63,051,097	15,670,616	63,051,097	6,262,609	36,757,530	659

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2.5.2. Exposures by asset classes and risk weights:

	Risk Classes / Risk Weights										Total risk amount (post-CCF and CRM)
	0%	10%	20%	50%	75%	100%	150%	200%	Others*		
1	11,365,235	-	-	5,474,359	-	5,234	-	-	-	16,844,828	
2	-	-	-	-	-	-	-	-	-	-	
3	-	-	-	-	-	-	-	-	-	-	
4	-	-	-	-	-	-	-	-	-	-	
5	-	-	-	-	-	-	-	-	-	-	
6	206,346	-	2,793,927	6,574,800	-	1,814,866	-	-	-	11,389,939	
7	111,021	-	106,340	-	-	11,479,444	-	-	-	11,696,805	
8	105,341	-	78,423	-	7,457,743	-	-	-	-	7,641,507	
9	30,971	-	25,423	-	-	-	-	-	6,488,528	6,544,922	
10	45,925	-	69,480	5,504,115	-	2,154,057	-	-	-	7,773,577	
11	65	-	109	85,495	-	43,726	-	-	-	129,395	
12	85	-	2	-	-	-	102,763	-	-	102,850	
13	-	-	-	-	-	-	-	-	-	-	
14	-	-	-	-	-	-	-	-	-	-	
15	23,745	-	3,207	49,824	-	33,791	-	-	-	110,567	
16	-	-	-	-	-	-	-	-	-	-	
17	2,769,353	-	702,084	-	-	3,607,879	-	-	-	7,079,316	
18	14,658,087	-	3,778,995	17,688,593	7,457,743	19,138,997	102,763	-	6,488,528	69,313,706	

(*) %35 of the risk weight is classified under Others.

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2.6. Risk amounts according to risk weights:

Current Period										
Risk Weights	0%	10%	20%	35%	50%	75%	100%	150%	200%	Deductions from Equity
Exposures before Credit Risk Mitigation	12,873,387	-	3,499,218	6,701,775	16,991,820	8,536,013	20,574,154	137,339	-	84,146
Exposures after Credit Risk Mitigation	14,658,087	-	3,778,995	6,488,528	17,688,593	7,457,743	19,138,997	102,763	-	84,146
Prior Period										
Risk Weights	0%	10%	20%	35%	50%	75%	100%	150%	200%	Deductions from Equity
Exposures before Credit Risk Mitigation	10,997,007	-	1,584,550	6,435,736	11,655,173	7,870,642	14,932,438	7,299	-	171,117
Exposures after Credit Risk Mitigation	11,298,836	-	1,863,377	6,339,522	11,570,790	7,702,750	14,700,271	7,299	-	171,117

2.7. Information by major sectors and type of counterparties

Impaired Loans; are the credits that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness according to TFRS 9 Financial Instruments. For such credits, "specific provisions" are allocated as TFRS 9 suggests.

Past Due Loans; are the credits that overdue up to 90 days but not impaired. For such credits, "general provisions" are allocated within the scope of TFRS 9.

	Loans		Provisions
	Impaired Loans		
Current Period	Significant Increase in Credit Risk (Stage II)	Default (Stage III)	Expected Credit Loss Provisions ^(*)
Agriculture	63,086	9,746	13,846
Farming and Stockbreeding	31,154	2,938	2,987
Forestry	31,293	1,804	5,850
Fishery	639	5,004	5,009
Manufacturing	1,115,007	262,681	378,696
Mining and Quarrying	250,079	54,398	90,889
Production	806,806	193,924	239,988
Electricity, Gas and Water	58,122	14,359	47,819
Construction	1,510,587	325,507	491,122
Services	1,451,460	482,450	473,147
Wholesale and Retail Trade	972,821	301,443	279,822
Accommodation and Dining	147,390	23,628	45,081
Transportation and Telecommunication	148,179	49,934	42,779
Financial Institutions	58	13,584	13,582
Real Estate and Rental Services.	59,340	64,699	65,087
Professional Services	217	2	14
Educational Services	14,885	109	1,536
Health and Social Services	108,570	29,051	25,246
Others	425,368	99,383	139,734
Total	4,565,508	1,179,767	1,496,545

^(*) The general provision amount is presented for past due loans.

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Prior Period	Loans		Provisions	
	Impaired Loans	Past due Loans	Value Adjustments ^(*)	Provisions
Agriculture	11,913	8,155	48	11,293
Farming and Stockbreeding	2,121	861	21	1,997
Forestry	4,889	7,293	27	4,393
Fishery	4,903	1	-	4,903
Manufacturing	117,724	371,499	5,795	102,452
Mining and Quarrying	38,749	77,201	1,279	37,324
Production	59,645	260,600	3,871	45,799
Electricity, Gas and Water	19,330	33,698	645	19,329
Construction	200,518	232,952	5,518	189,524
Services	341,976	309,913	6,795	329,029
Wholesale and Retail Trade	216,419	210,527	4,483	206,034
Accommodation and Dining	11,799	10,753	671	11,546
Transportation and Telecommunication	18,759	35,486	559	17,368
Financial Institutions	17,756	-	-	17,756
Real Estate and Rental Services.	65,432	12,207	259	65,276
Professional Services	-	-	-	-
Educational Services	530	552	54	402
Health and Social Services	11,281	40,388	769	10,647
Others	41,999	237,930	4,162	34,649
Total	714,130	1,160,449	22,318	666,947

^(*) The general provision amount is presented for past due loans.

2.8. Movements in value adjustments and provisions

Current Period ^(****)	Opening Balance (After TSRF 9)	Provisions for Period	Provision Reversals ^(***)	Other Adjustments ^(****)	Closing Balance
Stage 3 Provisions ^(*)	489,571	658,814	(204,187)	(103,142)	841,056
Stage 1&2 Provisions ^(**)	330,083	1,291,161	(528,557)	-	1,092,687

^(*) Represents Stage III expected loss provision.

^(**) Represents Stage I and Stage II expected loss provision.

^(***) Includes provision reversals and exchange rate differences.

^(****) Represents loans written off from assets.

^(*****) It does not include provisions for non-cash loans.

Prior Period	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments ^(****)	Closing Balance
Specific Provisions	585,723	629,878	(87,301)	(461,353)	666,947
General Provisions	318,825	101,046	(14,403)	-	405,468

^(****) Represents written-off loans.

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2.9. Risk involved in counter-cyclical capital buffer calculation

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
Turkey	24,970,123	-	24,970,123
Bahrain	73,673	-	73,673
Albania	34,419	-	34,419
Saudi Arabia	22,379	-	22,379
Iraq	12,135	-	12,135
Qatar	9,751	-	9,751
Marshall Islands	8,217	-	8,217
Germany	8,208	-	8,208
United Arab Emirates	5,257	-	5,257
Uzbekistan	5,170	-	5,170
Other	28,222	-	28,222

2.10. Information of Cash and Noncash Loans according to Bank Risk Rating System

The Bank calculates the probability of delinquency and internal rating notes for the portfolio of Corporate/Commercial/SME loans based on statistical methods in Turkish Commercial Code. Ratings are shown the table below as of 31 December 2018.

	Cash Loans	Non-Cash Loans	Total
High Quality	%49	%73	%54
Medium Quality	%29	%12	%26
Average	%12	%11	%12
Below Average	%10	%4	%8
Unrated	%0	%0	%0

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3. Explanations on currency risk:

Foreign currency risk represents the Bank's exposure to loss due to the changes in foreign currency exchange rates. All foreign currency assets, liabilities and foreign currency forward transactions are considered in calculation of capital to be employed for foreign currency risk according to Standard Method.

The Bank monitors daily the designated limits set by the Board of Directors and additionally observes the possible value changes in foreign currency positions. The limits are determined and followed both for the net foreign currency position and for the cross exchange rate risk within the position. As a tool of foreign currency risk management, foreign currency forward transactions are used when necessary to mitigate the risk.

As of 31 December 2018, the Bank carries a net foreign currency short position of TL 37,804 (31 December 2017 - TL 140,408 long position) comprising of TL 655,043 balance sheet long position (31 December 2017 - TL 25,686 long position) and TL 692,847 off balance sheet short position (31 December 2017 - TL 114,722 long position).

The announced current foreign exchange buying rates of the Bank as of the date of the financial statement and for the five working days that are backed from that date are as follows (full TL):

	24/12/2018	25/12/2018	26/12/2018	27/12/2018	28/12/2018	Balance sheet evaluation rate
USD	5.29230	5.29915	5.28385	5.28572	5.26135	5.27922
EURO	6.03194	6.04001	6.01851	6.02046	6.02750	6.03915
GBP	6.70173	6.72389	6.70477	6.68312	6.66538	6.72374
CHF	5.32745	5.37648	5.34259	5.33083	5.35241	5.36103
JPY	0.04767	0.04807	0.04780	0.04768	0.04767	0.04792

The simple arithmetic averages of the major current foreign exchange buying rates of the Bank for the thirty days preceding the balance sheet date are as follows (full TL):

	Monthly average FC purchase rate
USD	5.3019
EURO	6.0369
GBP	6.7234
CHF	5.3462
JPY	0.0473

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Currency risk of the Bank:

	EURO	USD	Other FC	Total
Current period				
Assets				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey (****)	2,724,448	3,790,062	2,738,469	9,252,979
Banks	3,785,502	339,180	2,216,580	6,341,262
Financial assets at fair value through profit and loss	-	96,168	-	96,168
Money market placements	-	-	-	-
Available-for-sale financial assets	1,804,547	2,404,236	-	4,208,783
Loans and finance lease receivables (*)	5,830,767	14,371,868	50,451	20,253,086
Subsidiaries, associates and joint ventures (**)	445,754	-	-	445,754
Held-to-maturity investments	-	-	-	-
Derivative financial assets for hedging purposes	-	-	-	-
Tangible assets	-	203	-	203
Intangible assets	-	48	-	48
Other assets	1,942,799	27,625	11,221	1,981,645
Total assets	16,533,817	21,029,390	5,016,721	42,579,928
Liabilities				
Current account and funds collected from Banks via participation accounts	32,822	69,569	142,643	245,034
Current and profit sharing accounts FC (****)	7,072,609	18,900,253	5,248,062	31,220,924
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	244,316	8,722,209	1,038,674	10,005,199
Marketable securities issued	-	-	-	-
Miscellaneous payables	21,480	13,707	582	35,769
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities (*****)	97,354	234,565	86,040	417,959
Total liabilities	7,468,581	27,940,303	6,516,001	41,924,885
Net balance sheet position	9,065,236	(6,910,913)	(1,499,280)	655,043
Net off-balance sheet position	(9,093,399)	6,923,802	1,476,750	(692,847)
Financial derivative assets	418,581	9,417,560	1,705,056	11,541,197
Financial derivative liabilities	9,511,980	2,493,758	228,306	12,234,044
Non-cash loans (***)	1,720,497	3,064,977	665,983	5,451,457
Prior period				
Total assets	8,482,415	17,640,023	3,087,584	29,210,022
Total liabilities	4,436,278	20,780,237	3,967,821	29,184,336
Net balance sheet position	4,046,137	(3,140,214)	(880,237)	25,686
Net off-balance sheet position	(3,986,204)	3,230,809	870,117	114,722
Financial derivative assets	519,504	5,406,552	1,368,737	7,294,793
Financial derivative liabilities	4,505,708	2,175,743	498,620	7,180,071
Non-cash loans (***)	1,546,017	2,616,933	404,125	4,567,075

(*) Includes foreign currency indexed loans amounting to TL 5,425,809 (31 December 2017 – TL 7,240,328) followed as TL on the balance sheet and expected credit loss amounting to TL 293,990.

(**) TL 445,754 (31 December 2017 – TL 293,646) of investment in associates amounting to TL 547,950 includes foreign currency denominated foreign associates and subsidiaries.

(***) Does not have any effect to the net off-balance sheet position.

(****) Precious metals are included in "Other FC" column.

(*****) General provision for FC indexed loans amount of TL 121,772 included in other liabilities. General loan provisions for the Bank's share and provisions for financial assets at fair value through profit and loss amount of TL 368 is not included in currency risk of the Bank.

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Foreign currency amounts that are not included in the currency risk table due to the legislation related to calculation of foreign currency net position to equity standard ratio, are explained by their gradation in the financial statements below:

- Derivative financial assets held for trading TL 12,528 (31 December 2017 – TL 12,531)
- Prepaid expenses : TL 706 (31 December 2017 – TL 408)
- Derivative financial liabilities held for trading : TL 41,936 (31 December 2017 – TL 59,251)
- Marketable securities of FC revaluation reverse: TL (51,432) (31 December 2017 – TL 12,609)
- Derivative financial liabilities held for hedging : TL 106,352 (31 December 2017- TL 70,795)

Receivables/Payables related to derivative financial instruments include foreign currency purchase/sale transactions that are amounting to;

- Forward foreign currency purchase transactions TL 538,844 (31 December 2016 - TL 492,048)
- Forward foreign currency sale transactions: TL 788,379 (31 December 2016 - TL 456,030)

Currency risk sensitivity:

The bank is mainly exposed to foreign currency risk in EURO, USD and GOLD.

The following table shows the bank's sensitivity to 10% change both USD, EURO and GOLD exchange rate.

	% changes on foreign currency	Effects on profit/loss Current Period	Effects on equity Current Period
USD	%10	1,289	(3,854)
EURO	%10	(2,816)	(2,816)
GOLD	%10	(62,195)	(62,195)

	% changes on foreign currency	Effects on profit/loss Prior Period	Effects on equity Prior Period
USD	%10	9,060	10,320
EURO	%10	5,993	5,993
GOLD	%10	(11,072)	(11,072)

4. Explanations on position risk of equity securities in banking book:

4.1. Relation of risks with gains accounted under equity and analyzing according to their aims including strategic reasons and the accounting policies applied and general information about valuation techniques with assumptions in this application, the elements that manipulate valuation and important changes:

The Bank's non-quoted securities are accounted for fair value. When the fair value cannot be reliably measured, the cost method is used.

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4.2. Carrying value of share investments, for fair value and quoted securities, comparison with market value if market value is significantly different from fair value:

Current Period		Comparison		
Equity Securities (shares)		Carrying Value	Fair Value	Market Value
1	Financial Assets at Fair Value Through Other Comprehensive Income	27,548	-	-
	Quoted Securities	-	-	-
2	Investment in Subsidiaries	-	-	-
	Quoted Securities	-	-	-
3	Investments in Associates	522,950	-	-
	Quoted Securities	53,416	-	-
4	Other	25,000	-	-
	Quoted Securities	-	-	-
Prior Period		Comparison		
Equity Securities (shares)		Carrying Value	Fair Value	Market Value
1	Securities Available-for-Sale ^(*)	48,497	-	-
	Quoted Securities	-	-	-
2	Investment in Subsidiaries	-	-	-
	Quoted Securities	-	-	-
3	Investments in Associates	377,647	-	-
	Quoted Securities	50,173	-	-
4	Other	20,000	-	-
	Quoted Securities	-	-	-

4.3. Realized gains/losses, revaluation surpluses and unrealized gains/losses on equity securities and results included in core and supplementary capitals:

None.

5. Explanations on liquidity risk management and liquidity coverage ratio:

The liquidity risk of the Bank is the risk of being unable to fulfill its payment obligations on time due to not having enough cash sources or cash inflows to finance its cash outflows fully and on time due to cash flow instabilities. It has been evaluated in two main categories:

Funding Liquidity Risk : It is a kind of risk which does not meet the any unexpected loss and non defaulting debts and liabilities.

Market Liquidity Risk : It is a kind of risk which consists of the position that cannot be sold without affecting market price due to insufficient market depth or market conditions' deterioration or that cannot be completed with the position of market price for any reasons.

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5.1. Information on risk capacity of the Bank, Responsibilities and structure of liquidity risk management, the Bank's internal liquidity risk reporting, communication between the Board of Directors and business lines on liquidity risk strategy, policy and application:

The applications and responsibilities related to the liquidity risk has been determined according to the Treasury Liquidity and Market Management Policies and Practices approved by Board of Directors. The Bank's liquidity and funding policy is to own sufficient liquidity reserve and funding opportunities to meet its liabilities even in cases of stress, resulting from the market conditions or other conditions specific to the Bank.

The Bank, with its strong capital structure and its main shareholder is Kuwait Finance House's support, spread the base of current and participation accounts and be stable, diversified sources of foreign borrowing has a high risk capacity. In addition, the Liquidity Coverage Ratio of the Bank which meets its cash outflows with the high-quality liquid assets is evaluated as high. There are also ready-to-use limits for the CBRT and financial institutions.

Senior management in the ALCO meetings are analyzed indicators of the liquidity situation and liquidity risk are weekly discussed. In addition, the Board of Directors are informed through the Audit Committee.

For the management of liquidity risk, the Risk Management Department follows the funding and liquidity risks, market conditions, in the participating accounts, the distribution of different currencies, maturity, cost and expected future cash flow requirements (particularly with regard to large deposits). Reports on the liquidity gap analysis prepared weekly by Budget and Management Reporting and monitored by the Asset and Liability Committee. These units also estimate the possible liquidity needs of the Bank in case of urgent situations and generate action plans based on these estimates. Risk Management Department follows the limits on liquidity risk determined by the Board of Directors. Risk Management Department, in addition to these, is implementing monthly liquidity stress tests to measure the effects of negative scenarios on liquidity position of the Bank. The Treasury Group Management manages the liquidity risk and funding risk in order to prevent insufficiencies of funding relating to any time or any source and makes reports related with the liquidity position to Asset and Liability Committee regularly. External Reporting Directorate tracks the liquidity coverage ratio and the results are reported to the BRSA.

5.2. Information on the centralization degree of liquidity management and funding strategy and the functioning between the Bank and the Bank's subsidiaries:

The Bank's liquidity management is performed by the Asset and Liability Management. Depending on the Bank's consolidated subsidiaries are subject to liquidity risk is managed in-house, but the necessary communication and coordination within the Assistant General Manager in charge of Treasury and International Banking are provided.

5.3. Information on the Bank's funding strategy including the policies on funding types and variety of maturities:

Bank spread to the base of current and participation accounts and that a stable, long-term diversification and aims to be the source of the funds used. Ratio of liquid assets to total assets ratio and risk indicators related to liquidity, credit and the ratio of funds, issues such as the concentration in collected funds are being closely monitored.

5.4. Information on liquidity management on the basis of currencies constituting a minimum of five percent of the Bank's total liabilities:

Almost all total liabilities of the Bank consists of the Turkish Lira, American Dollar, Euro, Malaysian Ringgit, or Gold. TL liquidity of the Bank is managed through the open market transactions implemented by the Central Bank of the Turkish Republic and interbank operations. Liabilities in the form of TL are used in order to fund assets in the form of TL, assets in the form of TL are generated through foreign exchange based funds with swap operations if necessary. Foreign currency funds are provided with the foreign sourced credits in the form of foreign currency and sukuk-financial certificates issued. Liquidity in the form of foreign currency is kept at the interbank operations and accounts of the corresponding bonds within the limits. Liabilities in the form of Gold are kept at the required reserve accounts of the Central Bank of the Turkish substantially.

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5.5. Information on liquidity risk mitigation techniques:

Liquidity risk is mitigated by using techniques such as maintaining high quality liquid asset buffer to cover possible fund outflows, diversification of funding sources so far as possible and inclusion to the base, homogenizing the maturity distribution of repayments as far as possible, obtaining limits from funding institutions to use when necessary and ensuring that a determined portion of funding sources are comprised of deposits. In addition, core deposit analysis is performed and concentration on collected funds are closely monitored.

5.6. Information on the use of stress tests:

In order to analyze the source of the possible liquidity insufficiencies and whether conformably move exists on existing off-balance sheet and balance sheet positions relevant with liquidity risk expectation, 3 types liquidity stress tests are applied by Risk Management Directorate. These includes stress test scenarios are special to the Bank, related with the overall market or scenarios take in consideration both of the situations. Stress tests related with liquidity risk are repeated at monthly periods. Results are tracked with key risk indicators and monitored by Senior Management.

5.7. General information on urgent and unexpected liquidity situation plans:

Necessary strategy and procedures for the management of possible liquidity crisis are determined with the Liquidity Contingency Plan, which is approved and reviewed every year by the Executive Risk Committee. The actions to be taken favor the benefits of depositors, creditors of the Bank and shareholders. Indicators of Liquidity Contingency Plan were determined, in case of unexpected progress at the liquidity situation occur or at situations trigger of other indicators, plan is put into use. After Liquidity Contingency Plan is put into use, Liquidity Contingency Management Committee is responsible from the determination of actions to be taken.

Analysis of financial liabilities by remaining contractual maturities:

The following table is prepared before the Bank's liabilities are undiscounted and based on the earliest date to the payment. Adjustment column shows the items that give rise to probable cash exit according to contractual terms at later period. The items that is mentioned is included the maturity analysis however it is not included the balance sheet value of financial liabilities at the balance sheet.

	Up to 1 month	1-3 month	3-12 month	1-5 years	Above 5 years	Total	Adjustments	Balance Sheet Value
31 December 2018								
Funds Collected	48,526,696	4,167,482	1,257,497	34,603	-	53,986,278	-	53,986,278
Other Fundings	916,955	997,058	4,889,306	4,720,325	2,212,653	13,736,297	(1,692,198)	12,044,099
Funds provided under repurchase agreements	188,990	-	-	-	-	188,990	(987)	188,003
Total	49,632,641	5,164,540	6,146,803	4,754,928	2,212,653	67,911,565	(1,693,185)	66,218,380
31 December 2017								
Funds Collected	35,186,932	3,460,101	1,193,540	16,827	-	39,857,400	-	39,857,400
Other Fundings	710,591	840,930	3,121,387	5,522,439	1,687,880	11,883,227	(1,491,380)	10,391,847
Funds provided under repurchase agreements	751,048	-	-	-	-	751,048	(524)	750,524
Total	36,648,571	4,301,031	4,314,927	5,539,266	1,687,880	52,491,675	(1,491,904)	50,999,771

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Maturity analysis for guarantees and contingencies:

	Demand	Up to 1 month	1-3 month	3-12 month	1-5 years	Above 5 years	Unallocated	Total
31 December 2018								
Letters of Guarantee	5,686,196	81,800	441,412	2,453,996	1,605,546	120,448	-	10,389,398
Bills of Exchange and Bank Acceptances	360	19,120	27,698	26,920	-	-	-	74,098
Letters of Credit	429,522	139,102	212,454	241,055	57,665	78	-	1,079,876
Other guarantees	198,735	-	1,630	109,403	11,773	3,177	-	324,718
Pre-financings given as guarantee	-	-	-	-	-	-	-	-
Total	6,314,813	240,022	683,194	2,831,374	1,674,984	123,703	-	11,868,090
31 December 2017								
Letters of Guarantee	4,906,261	208,190	537,290	2,103,104	1,748,757	62,536	-	9,566,138
Bills of Exchange and Bank Acceptances	-	13,380	19,098	21,497	1,983	-	-	55,958
Letters of Credit	279,735	112,881	263,010	264,459	12,015	-	-	932,100
Other guarantees	305,907	593	2,971	162,176	14,393	-	-	486,040
Pre-financings given as guarantee	27,919	-	-	-	-	-	-	27,919
Total	5,519,822	335,044	822,369	2,551,236	1,777,148	62,536	-	11,068,155

Contractual maturity analysis of derivative instruments:

	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Total
31 December 2018						
Derivatives financial assets held for trading						
Foreign exchange derivatives:						
Entry	7,688,220	2,699,172	224,786	-	-	10,612,178
Exit	7,691,214	2,692,695	222,198	-	-	10,606,107
Hedging purposes financial assets						
Foreign exchange derivatives						
Entry	-	-	-	1,020,984	-	1,020,984
Exit	-	-	-	1,144,549	-	1,144,549
Total Cash Inflow	7,688,220	2,699,172	224,786	1,020,984	-	11,633,162
Total Cash Outflow	7,691,214	2,692,695	222,198	1,144,549	-	11,750,656
31 December 2017						
Derivatives financial assets held for trading						
Foreign exchange derivatives:						
Entry	4,828,993	1,140,288	815,983	-	-	6,785,264
Exit	4,859,152	1,142,688	866,404	-	-	6,868,244
Hedging purposes financial assets						
Foreign exchange derivatives						
Entry	-	-	-	746,440	-	746,440
Exit	-	-	-	819,063	-	819,063
Total Cash Inflow	4,828,993	1,140,288	815,983	746,440	-	7,531,704
Total Cash Outflow	4,859,152	1,142,688	866,404	819,063	-	7,687,307

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Liquidity Coverage Ratio

Current Period	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High-Quality Liquid Assets				
1 Total high-quality liquid assets (HQLA)	10,508,441	8,795,462	10,488,821	8,775,842
Cash Outflows				
2 Retail deposits and deposits from small business customers, of which:	39,025,039	21,661,571	3,389,442	2,166,157
3 Stable deposits	10,261,242	-	513,062	-
4 Less stable deposits	28,763,797	21,661,571	2,876,380	2,166,157
5 Unsecured wholesale funding, of which:	10,237,486	6,333,153	5,244,979	3,132,932
6 Operational deposits	-	-	-	-
7 Non-operational deposits	9,329,972	6,111,483	4,337,465	2,911,262
8 Unsecured funding	907,514	221,670	907,514	221,670
9 Secured wholesale funding	-	-	-	-
10 Other cash outflows of which	8,432,694	7,464,267	8,432,694	7,464,267
11 Outflows related to derivative exposures and other collateral requirements	8,007,192	7,464,267	8,007,192	7,464,267
12 Outflows related to restructured financial instruments	425,502	-	425,502	-
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	-	-	-	-
14 Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15 Other irrevocable or conditionally revocable off-balance sheet obligations	15,380,687	5,760,329	1,017,528	306,640
16 Total Cash Outflows			18,084,643	13,069,996
Cash Inflows				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	14,676,955	11,138,438	12,592,834	10,612,342
19 Other cash inflows	8,518,216	8,076,938	8,518,216	8,076,938
20 Total Cash Inflows	23,195,171	19,215,376	21,111,050	18,689,280
Total Adjusted Value				
21 Total HQLA			10,488,821	8,775,842
22 Total Net Cash Outflows			4,521,161	3,267,499
23 Liquidity Coverage Ratio (%)			231.99	268.58

^(*) The average of last three months' liquidity coverage ratio calculated by quarterly and weekly simple averages

The table below presents highest, lowest and average liquidity coverage ratios within 2018:

	Highest	Date	Lowest	Date	Average
TP+YP	311.34	20/07/2018	215.70	19/10/2018	248.32
YP	422.71	16/02/2018	251.08	28/12/2018	331.97

The liquidity coverage rate is calculated by the ratio of the high quality liquid assets that the bank has to the net cash outflows in the one month maturity window. Important balance sheet items that determine the rate; Required reserves held by CBRT, securities not subject to repo / receivables, institutional qualified participation accounts, funds originated from abroad and receivables from banks. These items have higher share of liquid assets and net cash outflows, higher than other items due to their high rate of consideration and their variability over time.

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Prior Period	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High-Quality Liquid Assets				
1 Total high-quality liquid assets (HQLA)	9,241,665	8,060,513	9,199,442	8,018,290
Cash Outflows				
2 Retail deposits and deposits from small business customers, of which:	27,782,868	12,778,991	2,335,598	1,277,899
3 Stable deposits	8,853,762	-	442,688	-
4 Less stable deposits	18,929,106	12,778,991	1,892,910	1,277,899
5 Unsecured wholesale funding, of which:	8,201,705	4,077,294	4,123,296	2,008,329
6 Operational deposits	-	-	-	-
7 Non-operational deposits	7,479,666	3,999,733	3,401,257	1,930,768
8 Unsecured funding	722,039	77,561	722,039	77,561
9 Secured wholesale funding	-	-	-	-
10 Other cash outflows of which	21,400,263	10,829,912	8,183,772	6,425,919
11 Outflows related to derivative exposures and other collateral requirements	6,814,394	6,185,757	6,814,394	6,185,757
12 Outflows related to restructured financial instruments	320,000	-	320,000	-
13 Payment commitments and other off- balance sheet commitments granted for debts to financial markets	-	-	-	-
14 Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15 Other irrevocable or conditionally revocable off-balance sheet obligations	14,265,869	4,644,155	1,049,378	240,162
16 Total Cash Outflows			14,642,666	9,712,147
Cash Inflows				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	6,637,367	4,169,519	5,037,108	3,778,429
19 Other cash inflows	6,993,193	5,664,245	6,993,193	5,664,245
20 Total Cash Inflows	13,630,560	9,833,764	12,030,301	9,442,674
Total Adjusted Value				
21 Total HQLA			9,199,442	8,018,290
22 Total Net Cash Outflows			3,660,667	2,428,037
23 Liquidity Coverage Ratio (%)			251.31	330.24

^(*) The average of last three months' liquidity coverage ratio calculated by quarterly and weekly simple averages.

The table below presents highest, lowest and average liquidity coverage ratios as of within 2017:

	Highest	Date	Lowest	Date	Average
TL+FC	648.12	10/03/2017	137.26	29/09/2017	268.61
FC	980.02	10/03/2017	283.29	12/05/2017	429.45

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Presentation of assets and liabilities according to their remaining maturities:

Current Period	Demand	Up to 1 month	1-3 Months	3-12 months	1-5 years	Over 5 years	Unallocated ^(*)	Total
Assets								
Cash (cash in vault, effectives, cash in transit, Cheques purchased) and balances with the Central Bank of the Republic of Turkey	3,963,062	6,473,026	-	-	-	-	-	10,436,088
Banks	6,419,648	-	-	-	-	-	-	6,419,648
Financial assets at fair value through profit and loss	-	29,890	21,278	241,145	86,394	10,439	-	389,146
Money market placements	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	194,356	365,308	468,928	4,813,983	415,375	138,115	6,396,065
Loans ^(*)	-	11,326,732	5,625,141	14,135,506	13,268,455	2,263,433	(753,976)	45,865,291
Held-to-maturity investments	-	-	-	-	-	-	-	-
Other assets ^(*)	35,695	2,737,567	295,581	-	346,640	-	1,310,604	4,726,087
Total assets	10,418,405	20,761,571	6,307,308	14,845,579	18,515,472	2,689,247	694,743	74,232,325
Liabilities								
Current account and funds collected from banks via participation accounts	225,025	27,867	-	-	-	-	-	252,892
Current and profit sharing accounts	21,883,508	26,390,296	4,167,482	1,257,497	34,603	-	-	53,733,386
Funds provided from other financial institutions	-	891,184	884,765	4,517,814	3,849,126	1,901,210	-	12,044,099
Money market borrowings	-	188,003	-	-	-	-	-	188,003
Marketable securities issued	-	-	-	-	-	-	-	-
Miscellaneous payables	180,832	81,062	-	-	-	-	-	261,894
Other liabilities ^(*)	-	1,214,284	191,616	5,351	106,352	-	6,234,448	7,752,051
Total liabilities	22,289,365	28,792,696	5,243,863	5,780,662	3,990,081	1,901,210	6,234,448	74,232,325
Net liquidity gap	(11,870,960)	(8,031,125)	1,063,445	9,064,917	14,525,391	788,037	(5,539,705)	-
Prior period								
Total assets	6,083,968	14,167,478	5,733,922	12,746,884	14,411,257	2,818,069	1,161,517	57,123,095
Total liabilities	16,179,975	21,035,351	4,303,119	4,020,397	4,841,324	1,360,338	5,382,591	57,123,095
Net liquidity gap	(10,096,007)	(6,867,873)	1,430,803	8,726,487	9,569,933	1,457,731	(4,221,074)	-

^(*) This line also includes receivables from leasing transactions.

^(**) Certain assets in the balance sheet that are necessary for the banking operations but cannot be readily convertible into cash in the near future, such as tangible assets, investments in associates and subsidiaries, joint ventures, stationary supplies and prepaid expenses are included under unallocated assets. The unallocated other liabilities column consists of equity and provisions balances

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6. Explanations on leverage ratio:

Leverage ratio table:

The leverage ratio table prepared in accordance with the communiqué "Regulation on Measurement and Assessment of Leverage Ratios of Banks" published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

	On-balance sheet assets	Current Period ^(*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	73,486,996
2	(Assets deducted in determining Tier I capital)	(250,604)
3	Total on-balance sheet risks (sum of lines 1 and 2)	73,236,392
	Derivative financial instruments and credit derivatives	
4	Replacement cost associated with all derivative instruments and credit derivatives	125,968
5	Add-on amounts for PFE associated with all derivative instruments and credit derivatives	134,811
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5)	260,779
	Securities or commodity financing transactions (SCFT)	
7	Risks from SCFT assets (excluding on-balance sheet)	863,204
8	Risks from brokerage activities related exposures	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8)	863,204
	Other off-balance sheet transactions	
10	Gross notional amounts of off-balance sheet transactions	61,704,440
11	(Adjustments for conversion to credit equivalent amounts)	(40,649,139)
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	21,055,301
	Capital and total risks	
13	Tier I capital	5,313,980
14	Total risks (sum of lines 3, 6, 9 and 12)	95,415,676
	Leverage ratio	
15	Leverage ratio	5.57

^(*) Amounts in the table are three-month average amounts.

In standalone, the Bank's balance sheet date in the last days of the past three months, calculated on the basis of the arithmetic average of the nominal value in the leverage ratio was 5.57% (31 December 2017 - 5.60%) were realized. The main reason for the changes compared to the previous period compared to other off-balance sheet items is higher than the increase in risk item. According to this, the core capital was increased by 20% due to increase in net profit, balance sheet items showed a 28% increase. Accordingly, the leverage ratio of the current period compared to the previous year shows an decrease of 3 basis points.

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	On-balance sheet assets	Prior Period ^(*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	57,410,113
2	(Assets deducted in determining Tier I capital)	(209,697)
3	Total on-balance sheet risks (sum of lines 1 and 2)	57,200,416
	Derivative financial instruments and credit derivatives	
4	Replacement cost associated with all derivative instruments and credit derivatives	55,367
5	Add-on amounts for PFE associated with all derivative instruments and credit derivatives	118,417
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5)	173,784
	Securities or commodity financing transactions (SCFT)	
7	Risks from SCFT assets (excluding on-balance sheet)	647,446
8	Risks from brokerage activities related exposures	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8)	647,446
	Other off-balance sheet transactions	
10	Gross notional amounts of off-balance sheet transactions	55,573,556
11	(Adjustments for conversion to credit equivalent amounts)	(34,573,311)
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	21,000,245
	Capital and total risks	
13	Tier I capital	4,423,318
14	Total risks (sum of lines 3, 6, 9 and 12)	79,021,891
	Leverage ratio	
15	Leverage ratio	5.60

(*) Amounts in the table are three-month average amounts.

7. Explanations on fair values of financial assets and liabilities:

The table summarizes the book value and fair value of the financial assets and liabilities that were not accounted by the values in Bank's financial statements. Book value is the sum of the acquisition value and accumulated profit share accruals.

	Book Value Current Period	Fair Value Current Period
Financial Assets		
Banks	6,419,648	6,419,648
Financial assets available for sale	6,396,065	6,396,065
Loans and lease receivables	46,619,267	45,213,605
Financial Liabilities		
Current account and funds collected from banks via participation accounts.	252,892	252,892
Other current and profit sharing accounts	53,733,386	53,733,386
Money market balances	188,003	188,003
Funds provided from other financial institutions	12,044,099	12,118,809
Miscellaneous payables	1,434,479	1,434,479

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	Book Value Current Period	Fair Value Prior Period
Financial Assets		
Banks	3,576,020	3,576,020
Financial assets available for sale	4,428,065	4,428,065
Loans and lease receivables	37,923,358	35,369,270
Financial Liabilities		
Current account and funds collected from banks via participation accounts.	310,223	310,223
Other current and profit sharing accounts	39,547,177	39,547,177
Money market balances	750,524	750,524
Funds provided from other financial institutions	10,391,847	11,994,898
Miscellaneous payables	198,119	198,119

The estimated fair value of the loans is calculated by discounting future cash flows by using current market rates of profit share. The fair value of financial assets and liabilities carried at amortized cost other than loans, available for sales financial assets and funds provided from other financial institutions approximates to their book values since they are short term in nature and their effective profit share rates are similar with current effective profit rates.

8. Explanations on the activities carried out on behalf and account of other persons:

The Bank does not perform purchases, sales and custody services in the name of others. The Bank has no fiduciary based transactions.

9. Explanations on risk management

Risk Management System refers to the Board of Directors, the Audit Committee, the Risk Management Committee, Asset-Liability Committee ("ALCO") and the Risk Management Department ("RMD") which has been composed in order to manage systemic risks that the Bank is exposed. The Board of Directors is the owner of the Bank's Risk Management System and ensures the establishment of an effective, sufficient and appropriate risk management system as well as the continuity of the system. The main objective of the Bank's Risk Management System is to identify, measure, monitor and control the risks that the Bank is exposed to, by determining the policies, limits and procedures to control, to monitor, and if necessary to change the risk-return structure of the Bank's future cash flows and the level & the quality of related activities.

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9.1. Explanations on Risk Management and Risk Weighted Amounts:

9.1.1. Overview of risk weighted amounts

		Risk Weighted Amounts		Minimum Capital Requirements
		Current Period 31/12/2018	Prior Period 31/12/2017	Current Period 31/12/2018
1	Credit risk (excluding counterparty credit risk) (CCR)	36,698,184	28,810,536	2,935,855
2	Of which standardised approach (SA)	36,757,533	28,865,184	2,940,602
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	91,242	80,518	7,299
5	Of which standardised approach for counterparty credit risk (SA-CCR)	91,242	80,518	7,299
6	Of which internal model method (IMM)	-	-	-
7	Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
8	Equity investments in funds – look-through approach	59,345	54,654	4,748
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – 1250% risk weighting Approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB supervisory formula approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	1,070,340	669,886	85,627
17	Of which standardised approach (SA)	1,070,340	669,886	85,627
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	4,287,751	3,522,738	343,020
20	Of which basic indicator approach	4,287,751	3,522,738	343,020
21	Of which standardised approach	-	-	-
22	Of which advanced measurement approach	-	-	-
23	Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	42,206,862	33,138,332	3,376,549

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9.1.2. Differences and matching between asset and liabilities' carrying values in financial statements and in capital adequacy calculation:

Current Period	Carrying values of items in accordance with Turkish Accounting Standards						No subject to capital requirements or subject to deduction from capital
	Carrying values in financial statements prepared as per TAS	Carrying values in legal consolidation prepared as per TAS	Credit Risk	Counterparty Credit Risk	Securization Positions	Market Risk	
Assets							
Cash and Balances with Central Bank of Turkey	10,436,088	10,436,088	10,436,088	-	-	-	-
Banks	6,419,648	6,419,648	6,419,648	-	-	-	-
Receivables From Money Markets	-	-	-	-	-	-	-
Financial Assets at Fair Value Through Profit and Loss	389,146	389,146	-	-	-	389,146	-
Financial Assets at Fair Value Through OCI	6,396,065	6,396,065	6,396,065	-	-	-	-
Financial Assets Measured at Amortised Cost	-	-	-	-	-	-	-
Derivative Financial Assets	42,011	42,011	-	42,011	-	-	-
Expected Loss Provisions (-)	132,002	132,002	-	-	-	-	132,002
Loans	43,414,592	43,414,592	44,507,279	-	-	-	1,092,687
Lease Receivables	2,450,699	2,450,699	2,450,699	-	-	-	-
Factoring Receivables	-	-	-	-	-	-	-
Property And Equipment Held For Sale Purpose And Related To Discontinued Operations (Net)	270,382	270,382	270,382	-	-	-	-
Subsidiaries	522,950	522,950	522,950	-	-	-	-
Jointly Controlled Entities (Joint Ventures) (Net)	25,000	25,000	25,000	-	-	-	-
Tangible Assets (Net)	688,888	688,888	688,888	-	-	-	-
Intangible Assets (Net)	136,979	136,979	136,979	-	-	-	-
Investment Properties (Net)	25,305	25,305	25,305	-	-	-	-
Current Tax Asset	-	-	-	-	-	-	-
Deferred Tax Asset	346,640	346,640	346,640	-	-	-	-
Other Assets	2,799,934	2,799,934	2,799,934	-	-	-	-
Total Assets	74,232,325	74,232,325	75,025,857	42,011	-	389,146	1,224,689
Liabilities							
Funds Collected	53,986,278	53,986,278	-	-	-	-	53,986,278
Borrowings	10,142,889	10,142,889	-	-	-	-	10,142,889
Debt to money markets	188,003	188,003	-	188,003	-	-	-
Securities Issued (Net)	-	-	-	-	-	-	-
Financial Liabilities at Fair Value Through Profit or Loss	-	-	-	-	-	-	-
Derivative Financial Liabilities	169,333	169,333	-	-	-	-	169,333
Lease Payables	-	-	-	-	-	-	-
Provisions	795,895	795,895	-	-	-	-	795,895
Current Tax Liabilities	175,685	175,685	-	-	-	-	175,685
Deferred Tax Liabilities	-	-	-	-	-	-	-
Subordinated Debt Instruments	1,901,210	1,901,210	-	-	-	-	1,901,210
Other Liabilities	1,434,479	1,434,479	-	-	-	-	1,434,479
Equity	5,438,553	5,438,553	-	-	-	-	5,438,553
Total Liabilities	74,232,325	74,232,325	-	188,003	-	-	74,044,322

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9.1.3. Main sources of differences between regulatory exposure amounts and carrying values in financial statements:

	Total	Items subject to credit risk framework	Items subject to securitisation framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
1- Carrying Value of Assets in Accordance with TAS (as per template 1B)	74,232,325	75,025,857	-	42,011	389,146
2- Carrying Value of Liabilities in Accordance with TAS (as per template 1B)	-	-	-	188,003	-
3- Total net amount	74,232,325	75,025,857	-	230,014	389,146
4- Off-balance sheet amounts	86,773,215	6,262,609	-	199,263	23,383,818
5- Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules (other than those already included in row 2)	-	-	-	-	-
7- Differences due to consideration of provisions	-	-	-	-	-
8- Differences due to prudential filters	-	-	-	-	-
9-Risk Amounts	161,005,540	81,288,466	-	429,277	23,772,964

9.2. General qualitative information on credit risk:

9.2.1. How the business model translates into the components of the bank's credit risk profile:

The business model of the Bank basically consists of two main business fields: collecting funds by means of current accounts and profit/loss participation accounts subject to the interest-free banking rules, and using those funds and equity funds to make funds available to customers. Because of these main business fields, the bank's assets have a credit-weighted structure. Reflecting this business model, its total assets are cash credit-weighted and financial leasing receivable-weighted. The bank lends funds to finance the real sector in general and increases its volume of credits by taking into account its risk-return balance to achieve sustainable growth.

The risk profile of the Bank indicates the types of risks to which it is exposed or expects to be exposed, and its risk level by type of risk. The largest type of risk to which the Bank is exposed or expects to be exposed within its current and target business model is the credit risk. Since the risk of concentration is one of the most important components of the credit risk, concentration limits were set by sector for the concentration risk. Internal limits are set for cash, non-cash and total credits for each of 20 different sectors. Limits were set for monitoring Defaulted Credit Exposures in mentioned sectors and for taking corrective measures. With regard to concentration of the credit risk, internal limits were set for the top 10, 20, 30, 40, 50 and 100 debtor/credit risk groups. Furthermore, country limits were set to avoid concentration in countries selected as part of the sovereign risk process.

9.2.2. Criteria and approach used for defining credit risk policy and for setting credit risk limits:

The main purpose of the credit risk policy are to measure the counterparty risk undertaken as part of a credit transaction, to monitor the risk against the legal limits and the Bank's internal limits, to research new techniques and applications for measuring and controlling the risk, to monitor overdue receivables, to analyze the reason of overdue, and to take measures to prevent such reasons from repeating. The term 'credit risk' refers to the potential loss the bank might be exposed to because of credit borrowers' partial or full default of the credit agreements they signed with the bank. This term also includes the loss of market value because of the breakdown of the counterparty's financial position. This term includes on-balance sheet and off-balance sheet transactions too.

Risk limits are set by openly relating it with the Bank's volume on consolidated and non-consolidated basis within the financial system as part of its risk appetite structure. In this context the appetite for risk approved by the Board of Directors are divided between and allocated to other levels considered necessary by type of risk. The uses of the limits are closely monitored, and overdrafts are reported to the executive management for ensuring the necessary measures to be taken.

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9.3. Structure and organization of the credit risk management and control function:

Risk Control and Compliance Group works under the Audit Committee and the Internal System Committee reporting to the Board of Directors. Risk Control and Compliance Group Manager and Risk Management Department Manager working under the former are in charge of and responsible for the strategies and policies approved by the Board of Directors and for performing the other tasks assigned by the Internal System Committee. Credit Risk Management and Modeling Unit is one of the units comprising the Risk Management Department performs the risk measurement and management tasks concerning the credit risk.

9.4. Relations between the credit risk management, risk control, compliance and internal audit functions;

The units comprising the internal systems report to the Board of Directors as required by the organizational chart of the bank. Board of Directors has transferred its tasks and responsibilities for the internal systems to the Internal Systems Committee formed by four members of the Board of Directors and appointed to be Internal System Executives. The units in question are supervised and coordinated by the Internal Systems Committee.

The internal control function of the Bank is performed by the Internal Control Department. Internal Control System has been founded in such a manner to be capable and efficient to mitigate, manage, monitor and control the exposure risks of the Bank in accordance with the Bank's organizational structure and business fields as well as changing circumstances, and covers all domestic and international branches, head office, consolidated subsidiaries and all business activities of the Bank. The internal control system and internal control activities of the Bank are designed by the Internal Control Department in cooperation with the relevant management executives and are performed at a sufficient and efficient extent.

Compliance Department is in charge of managing the bank's compliance risk and taking it under control in an efficient way, forecasting and preventing the risk in question, and ensuring the bank's activities to comply with the applicable laws and regulations.

Risk Management Department performs the tasks of determining, measuring and managing the exposure risks of the bank. An efficient risk management system infrastructure has been established for credit risk management tasks, credit policy, and risk management activities falling within the credit risk policy. The internal credit risk limits set by the Board of Directors are measured and reported at regular intervals to the Audit Committee.

Audit Department is in charge of assuring the Board of Directors and the executive management that the Bank's business activities are performed in accordance with the Banking Law, other applicable laws and regulations and the internal strategies, policies, principles and targets of the bank, and that the internal control and risk management systems are efficient and sufficient.

9.5. Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the Board of Directors:

Risk Management Report for the Executive Management, which is the basic report presented to the Board of Directors and the executive management, is prepared before each meeting of the Audit Committee. The report in question contains the basic subjects described below.

Quality of the assets are analyzed in accordance with the classification specified in the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside and the assets are compared with those of the previous fiscal period to monitor the sustainability of the asset quality. The report describes the credit risk limits and the figures realized in the relevant fiscal period. Credits lent in 20 different economic sectors are monitored by cash, non-cash and total credits. Credit shares and development trends of the economic sectors are monitored. The risk limits set in accordance with the Bank's appetite for risk and the figures realized are explained. Observed key risk indicators include the ratio of credit risk-weighted items over the total assets, the ratio of the total gross amount of defaulted credits over the total financing (cash credits) portfolio and their distribution by sector, distribution of guarantees by guarantee group, the ratio of the top 10/20/30/40/50/100 risks over the total financing (cash and non-cash credits) portfolio, and the ratio of write-off.

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Distribution of cash credits by maturity term is monitored. Detailed information is given about the top 10 customers against whom internal or legal proceedings were filed, their limits, risks, guarantees and provisions, description of their sectors and their state are described. The trend of restructured credits is monitored. Also, loans to risk group of the Bank are reported.

Sovereign ratings, limits and used limits are monitored and compared with the previous fiscal year.

The Bank creates credit portfolios in accordance with its internal segment structure. These segments are divided into sub-segments. Risks realized for cash, non-cash and total credits are monitored by each of these portfolios.

Real estate price indexes are analyzed to monitor whether the values of the real estates received as guarantees for the funds lent have increased or decreased. These real estates are also monitored by subcategory in accordance with the classification of regions published by the Turkish Central Bank. They are also compared with the House Price Index of Turkey published by the Turkish Central Bank.

Credit quality of assets:

		Gross amount valued as per TAS and presented in the financial statements prepared according to legal consolidation		Provisions / depreciation and impairment	Net amount
		Defaulted	Non-defaulted		
1	Loans	1,179,767	46,619,267	841,056	46,957,978
2	Debt securities	-	6,560,506	164,441	6,396,065
3	Off-balance sheet exposures ^(*)	-	14,249,831	239,316	14,010,515
4	Total	1,179,767	67,429,605	1,244,813	67,364,559

^(*)Accruals of derivative transactions are presented as net amounts under impairments.

Changes in stock of defaulted loans and debt securities:

	Current Period
1	Defaulted loans and debt securities at end of the previous reporting period
2	Loans and debt securities that have defaulted since the last reporting period
3	Receivables back to non-defaulted status
4	Amounts written off
5	Other changes
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)

9.6. Qualitative disclosures related to the credit quality of assets

9.6.1. Scope and definitions of "overdue" and "provision allocated" receivables for accounting purposes and the differences of definitions between "overdue" and "provision allocated", if any

Overdue receivables: Overdue receivables and provision allocated receivables are determined according to the Communiqué on Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves. Provision for receivables: All financial instruments other than those covered by TFRS 9 and whose fair value is reflected in the profit / loss.

9.6.2. The part of the overdue receivables (part 90 days) for which provision is not allocated and reasons for this application

The portion, as defined in The Regulation on Procedures and Principles Regarding the Classification of Loans and Provisions; based on minimum, legal compulsory consideration of collateral except for the amount calculated by using in the calculation of Lost in Default's ECLs. This portion corresponds to the rate determined by the Bank's past collection experience regarding the unsecured credit risk amount.

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9.6.3. Definitions of the methods used when determining the provision amount

IFRS 9 requires a 12-month expected credit loss provision for all financial assets in Stage 1 and the expected credit loss for all other financial assets. 12-month expected credit loss represents the portion of the expected credit loss from probable default events within 12 months after the reporting date. Lifetime losses are losses from all possible default events during the expected life of the financial instrument after the reporting date. Lifetime refers to the maturity of the financial instrument. In non-maturity financial instruments, the bank calculates the behavioral maturity and uses this to calculate the expected loan loss. The ECLs are calculated at each instrument level by taking into account the projected cash flows, the PoP (Probability of Probation), the DoL (Default on Loss), the CCR (Credit Conversion Rate) and the discount rate. In small, very unimportant and unrated portfolios, the ECL can be estimated on a collective basis.

9.6.4. Definition of restructured receivables

The financial terms in existing financial difficulties may be amended to facilitate payment of the debt, and the original loan terms that were previously signed can be changed according to the borrower's new financing power and structure when the loan cannot be repaid or a potential non-repayment is encountered. In order for a loan to be considered as restructured, the debtor must be in financial difficulty and the debtor must be provided with the concession requirements for changing the loan conditions.

9.6.5. Breakdown of exposures by geographical areas, industry and ageing:

Distribution of cash receivables by sectors is as follows:

Sector	Cash Loan Amount
Individual	7,503,339
Other Services	2,956,888
Education	349,526
Real Estate and Brokerage	382,518
Financial Services	5,506,964
Food, Beverage, Tobacco	1,387,365
Government	55,730
Production	2,010,030
Construction	6,319,400
Public Services (Electricity, Water & Gas)	3,674,016
Mining & Chemistry	2,318,818
Machinery Equipment	354,933
Automotive	1,540,260
Oil, Gas and Oil Products	133,942
Health	509,078
Agriculture	152,941
Textile	3,107,012
Wholesale & Retail	8,126,200
Tourism	347,300
Transportation & Warehouse	1,062,774
Total	47,799,034

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The distribution of cash receivables by geographical regions is as follows

Region	Cash Loan Amount
Akdeniz Region	3,425,548
Dogu Anadolu Region	914,832
Ege Region	2,996,116
Güneydogu Anadolu Region	2,492,121
Iç Anadolu Region	7,737,345
Karadeniz Region	1,415,864
Marmara Region	26,109,922
Foreign	2,707,286
Total	47,799,034

The maturity distribution of cash receivables is as follows:

Maturity Distribution	Cash Loan Amount
1-3 years	13,538,987
3-5 years	5,810,681
5 years and more	7,130,585
Up to 1 year	20,738,166
Defaulted	580,615
Toplam	47,799,034

9.6.6. Provisions based on geographical and sectoral concentration and written off amounts

Sector	Loans Under Follow-Up	Specific Provisions	Write-Offs
Agriculture	9,746	8,390	409
Farming and Stockbreeding	2,938	2,035	15
Forestry	1,804	1,350	394
Fishery	5,004	5,005	0
Manufacturing	262,681	217,367	29,796
Mining and Quarrying	54,398	44,639	2,112
Production	193,924	159,070	12,199
Electricity, Gas and Water	14,359	13,658	15,485
Construction	325,507	237,015	9,106
Services	482,450	319,976	51,643
Wholesale and Retail Trade	301,443	178,302	37,841
Accommodation and Dining	23,628	11,543	5,098
Transportation and Telecommunication	49,934	34,419	5,520
Financial Institutions	13,584	13,582	0
Real Estate and Rental Services	64,699	62,512	67
Professional Services	2	1	0
Educational Services	109	99	515
Health and Social Services	29,051	19,518	2,602
Other	99,383	58,308	12,188
TOTAL	1,179,767	841,056	103,142

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Geographic Region	Non performing Loans	Provisions	Write-Offs
Marmara Region	666,034	476,553	67,110
Güneydogu Anadolu Region	153,563	116,028	8,109
Iç Anadolu Region	160,541	116,592	14,728
Akdeniz Region	110,693	66,340	5,438
Ege Region	54,219	39,686	2,714
Dogu Anadolu Region	22,434	13,574	3,650
Karadeniz Region	12,283	12,283	1,393
Total	1,179,767	841,056	103,142

9.6.7. Aging analysis for non-performing loans:

Current period	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	5 Years and Over
Corporate and Commercial Loans	279,638	345,121	374,104	99,369	16,347
Retail Loans	6,893	28,860	10,244	1,475	955
Credit cards	6,590	8,298	1,352	438	83
Other	-	-	-	-	-
Total	293,121	382,279	385,700	101,282	17,385

9.6.8. Breakdown of Restructured receivables according to their provisions:

Restruction Status	Risk
Performing	732,523
Non-Performing	58,870
Total	791,393

9.7. Credit risk mitigation techniques:

	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
1 Loans	33,438,600	13,519,379	3,276,016	-	-	-	-
2 Debt securities	6,396,065	-	-	-	-	-	-
3 Total	39,834,665	13,519,379	3,276,016	-	-	-	-
4 Overdue	203,023	135,688	72,099	-	-	-	-

9.8. Explanations on Counterparty Credit Risk (CCR):

9.8.1. Risk management objectives and polices for CCR:

Determination of the creditworthiness of financial counterparties has been made in addition to the Credit Policy of the Bank in accordance with the regulations published by BRSA and the international practices in order to limit the exposure to be suffered by the Bank in case of financial counterparty default. This annex describes allocation of limit to financial counterparties and continuous monitoring activities. In this respect, the creditworthiness assessments of the financial and non-financial entities for CCRs especially including sovereign assessments and limits are finally decided by the committees specified under the Policy.

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9.8.2. The method used to allocate the operational limits defined in terms of internal capital for CCR and central counterparty risks:

Internal model method is not used for calculating the capital requirements for counterparty credit risk and central counterparty risks.

9.8.3. Policies relating to guarantees and other risk mitigation and assessments concerning counterparty credit risk, including central counterparty risk:

All of the Bank's counterparty credit risk and central counterparty limits are non-committed limits and they include cash and non-cash limits. In case of any transactions involving non-cash risk exposure, the reassurance of the organizations such as International Development Banks is used. If required, cash collateral is sought in order to minimize the exposure. In case of transactions involving cash risk exposure, the risk exposure is mitigated by obtaining shares and bills (sukuk) as security.

9.8.4. Rules with respect to wrong-way risk:

Internal model is not used for CCR; and as such, no calculation is made with respect to the wrong-way risk.

9.8.5. The impact in terms of the amount of collateral that the bank is required to provide in case of a credit rating downgrade:

Currently, the Bank does not borrow by providing security for the cash exposure transactions where it is debtor. Therefore, the Bank is not subject to such impacts in case of a possible rating downgrade and the Bank's contracts do not contain such terms and conditions.

9.8.6. Counterparty credit risk (CCR) approach analysis:

	Replacement Cost	Potential future exposure	EEPE (Effective Expected Positive Exposure	Alpha used for computing regulatory EAD	EAD post- CRM	RWA
1 Standardised Approach CCR (for derivatives)	41,998	157,265		1.4	199,263	77,327
2 Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
3 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
4 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
5 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
6 Total						77,327

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9.8.7. Capital requirement for credit valuation adjustment (CVA):

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital obligation		
1 (i) VaR component (including the 3xmultiplier)	-	-
2 (ii) Stressed VaR component (including the 3xmultiplier)	-	-
3 All portfolios subject to the Standardised CVA capital obligation	199,263	13,915
4 Total subject to the CVA capital obligation	199,263	13,915

9.8.8. CCR exposures by risk class and risk weights

Risk Classes / Risk Weights *	%0	%10	%20	%50	%75	%100	%150	%200	Others***	Total credit risk*
1 Receivables from central governments and Central Banks	194,001	-	-	-	-	-	-	-	-	-
2 Receivables from regional and local government	-	-	-	-	-	-	-	-	-	-
3 Receivables from administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-	-
4 Receivables from multilateral development banks	-	-	-	-	-	-	-	-	-	-
5 Receivables from international organizations	-	-	-	-	-	-	-	-	-	-
6 Receivables from banks and brokerage houses	-	-	108,530	58,446	-	1,028	-	-	-	51,957
7 Receivables from corporate	-	-	-	-	-	15,043	-	-	-	15,043
8 Retail receivables	-	-	-	-	9,585	-	-	-	-	7,189
9 Receivables secured by residential property	-	-	-	-	-	-	-	-	955	334
10 Receivables secured by commercial property	-	-	-	452	-	2,578	-	-	-	2,804
11 Non-performing receivables	-	-	-	-	-	-	-	-	-	-
12 Receivables in high-risk categories	-	-	-	-	-	-	-	-	-	-
13 Mortgage-backed securities	-	-	-	-	-	-	-	-	-	-
14 Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
15 Investments similar to collective investment funds	-	-	-	-	-	-	-	-	-	-
16 Equity share investments	-	-	-	-	-	-	-	-	-	-
17 Other receivables	-	-	-	-	-	-	-	-	-	-
17 Other assets**	-	-	-	-	-	-	-	-	-	-
18 Total	194,001	-	108,530	58,898	9,585	18,649	-	-	955	77,327

* Total credit risk: The amount related to capital adequacy calculation after counterparty credit risk measurement techniques are applied.

** Other assets: The template includes amounts that are not included in counterparty credit risk reported in CCR8.

*** 35% Risk Weight is classified in Others.

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9.9. Explanations on securitization positions:

None.

9.10. Qualitative explanations on market risk:

9.10.1. Bank's processes and strategies:

Procedures for the identification, measurement, monitoring and control of the market risk of the bank, as well as processes for risk protection and strategies/processes for monitoring of the continuity of the hedging effectiveness, as well as the strategic objectives for the bank's trading activities:

Risk management activities are consisting of the measurement, monitoring, control and reporting of the risks, arising from risks incurred on the consolidated and solo basis and transactions carried out with the risk group that the Bank is involved in. These activities are carried out by the Bank's Risk Management Department.

The definition of the market risk is made by legislation within the scope of the Pillar 1 risks. The components of the market risk that do not fall within the scope of Pillar 1 risks are assessed internally. This process is carried out by the Risk Management Department with the consultation to other relevant departments.

Measurement of the market risk is carried out by the Risk Management Department. Market risk is measured by the standard method as specified in the third part of the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy. The Risk Management Department adopts international standardized methods and advanced statistical methods, which are included in the legislation, in the measurement of risks falling within the scope of the Pillar 2. Developed models as well as the stress tests and scenario analysis are used in the measurement and monitoring of the market risk.

The primary purpose of market risk is for the bank's risk exposure to be within the limits specified by the legislation and to be in accordance with the Bank's risk appetite. In this context, market risk is periodically measured, monitored and reported.

Risk limits related to market risk are established in accordance with the Bank's Risk Appetite Policy. Aforementioned risk limits are determined by the Board of Directors and reviewed at least once a year. Limit usages are closely monitored.

Risk mitigation techniques have been applied in line with the size and complexity of the undertaking market risk and the controls are implemented in order to ensure their effectiveness.

Treasury Group Department monitors foreign currency positions and cash flows on behalf of the Bank.

Moreover, new products and projects are examined in terms of market risk management and appropriate internal controls are implemented in case of necessity.

The Bank's strategic objectives for trading activities are given below.

- Ensure that the bank's lease certificate portfolio is managed at the optimum level within the risk-return balance limits
- Implement transaction by taking into account the future prospects of market developments/movements and the framework of trading opportunities in the current market prices,
- Invest in Sukuk (lease certificates) as an alternative investment tool to manage the liquidity profitably

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9.10.2. The organization and structure of the market risk management function:

Definition of the market risk management structure established for the implementation of the bank's strategies and processes and the communication mechanism and relationship between the different parties involved in market risk management, as described in part 1.

The market risk service, operates under the Deputy Head responsible from the Market Risk, Operational Risk and Capital Planning within Risk Management Department. This service directly reports to the Board of Directors through the Internal Systems Committee. The results of risk measurement and risk monitoring are shared with other related units. The activities coordinated within the Internal Capital Adequacy Assessment Process are carried out together with other relevant departments of the Bank.

9.10.3. Structure and scope of risk reporting and/or measurement systems:

Within the scope of risk management system, the Bank established a reporting system which ensures effective analysis and evaluation for market risks. The risk measurement and risk monitoring results is reported to the Internal Systems Committee on a timely manner.

There is a risk measurement system which covers the scope and complexity of significant market risk components including transactions and operations exposed to market risk. This system is being audited regularly.

The details of the market risk calculated as of 31 December 2017 and 31 December 2018 in accordance with the principles in the third part of the "The Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette numbered 29511 and dated 23 October 2015 are as follows:

9.10.4. Market risk under standardised approach:

		Risk Weighted Amounts
		Current Period
Outright products		1,070,340
1	Profit share risk (general and specific)	403,150
2	Equity risk (general and specific)	-
3	Foreign exchange risk	665,878
4	Commodity risk	1,312
Options		-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	1,070,340

		Risk Weighted Amounts
		Prior Period
Outright products		669,886
1	Profit share risk (general and specific)	370,446
2	Equity risk (general and specific)	-
3	Foreign exchange risk	298,613
4	Commodity risk	827
Options		-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	669,886

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9.11. Explanation on Operational Risk:

"Basic Indicator Method" is used in operational risk calculation of the Bank. The sum that is the basis for the operational risk is calculated by the use of the gross revenues of the Bank for the last 3 years, 2016, 2015 and 2014 in compliance with "Third Section "Calculation of the Operational Risk" of The Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks published in the Official Gazette numbered 29111 and dated 6 September 2014. The annual gross revenue is calculated by addition of the net fees and commission revenues, dividend income obtained other than subsidiaries and affiliates, the trading gain/loss(net) and other operating income to the net profit share income and by deduction of the gain/loss from the sale of the assets accounted other than the trading book, extraordinary income, the operational expenses for the support services taken from the main shareholder of the bank, subsidiary of the bank or subsidiary of the shareholder of the bank performing the calculation or the institutions which are subject to the relevant Regulation or the equivalent arrangements and the operational expenses for the support service taken from a bank and the amounts compensated from insurance. TL 343,020 corresponding to the 8% of TL 4,287,751 used in the calculation of the operational risk within the scope of "Capital adequacy standard rate" indicated in the disclosure I of this section, represents the operational risk which might be exposed to. TL 343,020 also defines the minimum capital sum which is required in order to eliminate the mentioned risk.

Current Period	31/12/2015 Amount	31/12/2016 Amount	31/12/2017 Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	1,916,011	2,205,206	2,739,187	2,286,801	15	343,020
Value at Operational Risk (Total*12.5)						4,287,751

Prior Period	31/12/2014 Amount	31/12/2015 Amount	31/12/2016 Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	1,515,171	1,916,011	2,205,206	1,878,796	15	281,819
Value at Operational Risk (Total*12.5)						3,522,738

9.12. Profit-share rate risk related to banking book:

9.12.1. Economic value differences arising from fluctuations in profit share rates in accordance with the regulation on measurement and evaluation of profit share rates derived from banking accounts with standard shock method

Current Period:

Currency	Applied Shock (+/- x basis points)	Gains/Losses	Gains/Shareholder's equity-Losses/ shareholder's equity
1 TRY	(+) 500bp	(371,506)	(4.99)%
2 TRY	(-) 400bp	338,537	4.54%
3 USD	(+) 200bp	281,553	3.78%
4 USD	(-) 200bp	(309,884)	(4.16)%
5 EURO	(+) 200bp	(2,917)	(0.04)%
6 EURO	(-) 200bp	6,691	0.09%
Total (For Negative Shocks)		35,344	0.47%
Total (For Positive Shocks)		(92,870)	(1.25)%

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Prior Period:

	Currency	Applied Shock (+/- x basis points)	Gains/Losses	Gains/Shareholder's equity-Losses/ shareholder's equity
1	TRY	(+) 500bp	(531,871)	% (9.09)
2	TRY	(-) 400bp	496,216	%8.48
3	USD	(+) 200bp	271,534	%4.64
4	USD	(-) 200bp	(303,292)	% (5.18)
5	EURO	(+) 200bp	(23,052)	% (0.39)
6	EURO	(-) 200bp	28,817	%0.49
	Total (For Negative Shocks)		221,741	%3.79
	Total (For Positive Shocks)		(283,389)	% (4.84)

9.13. Risk management objectives and policies:

In accordance with Bank's strategies, risk policies and vision, the analysis that Risk Management Service presents to Internal Systems Committee and Audit Committee are credit risks, market risks, liquidity risks, operational risks and IT risk evaluations. Besides, in accordance to market trends, economic conduct and Bank's strategic growth, capital adequacy stress test and scenario analyses, evaluation of economic development in the World and Turkey are presented to Internal Systems Committee and Board of Directors by Risk Management Service. These analysis contribute to Bank Top Management's resolution process about risk appetite and awareness of risks, capital adequacy, strategy revisions and future estimation.

In addition, Risk Management Service verifies its own coordination to be ready proactively in business availability of Kuveyt Türk and situations connected with it.

Risk Management Service continues risk monitoring and analyzing operations in accordance to Board of Director's Kuveyt Türk's mission, vision and growth strategy to prevent the potential risks. In this context credit and market risks, liquidity risk, operational risks and all limits, internal personal scoring and corporate rating modeling with IT risks issues, IT risk evaluation, operational lost data base, key risk indicators, operational risk insurances, market risk calculations, following up of treasury transactions and asset-liability risks are being monitored.

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Financial instruments valued by applying methods that are based on observable market prices, directly or indirectly, on data that have significant effect on the fair value reflected in the inputs

Level 3: Financial instruments valued by applying methods that are not based on observable market prices, directly or indirectly, on data that have significant effect on the fair value reflected in the inputs.

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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 31 December 2017 and 31 December 2018 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	389,146	42,011	-	431,157
Forward transactions	-	30,919	-	30,919
Swap transactions	-	11,092	-	11,092
Government debt securities	30,097	-	-	30,097
Other marketable securities	359,049	-	-	359,049
Available-for-sale financial assets	6,396,065	-	-	6,396,065
Equity securities	27,548	-	-	27,548
Government debt securities	5,869,940	-	-	5,869,940
Other marketable securities	498,577	-	-	498,577
Financial liabilities				
Financial liabilities held for trading	-	169,333	-	169,333
Forward transactions	-	22,126	-	22,126
Swap transactions	-	147,207	-	147,207
Prior Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	216,708	26,699	-	243,407
Forward transactions	-	16,467	-	16,467
Swap transactions	-	10,232	-	10,232
Government debt securities	36,319	-	-	36,319
Other marketable securities	180,389	-	-	180,389
Available-for-sale financial assets	4,428,065	-	-	4,428,065
Equity securities	48,497	-	-	48,497
Government debt securities	4,103,448	-	-	4,103,448
Other marketable securities	276,120	-	-	276,120
Financial liabilities				
Financial liabilities held for trading	-	80,697	-	80,697
Forward transactions	-	14,948	-	14,948
Swap transactions	-	65,749	-	65,749

There are no transfers have taken place between Level 1 and Level 2 in the current year.

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10. Explanations on business segments:

The Bank operates in Retail and Enterprise Banking, Commercial Banking, Corporate and International Banking sectors.

Commercial Banking: to meet the financial needs of the customers', unique cash flow and financial solutions are provided to customers through loans, non-cash loans, foreign trade financing services and similar customized products. Domestic and foreign business opportunities are supported by using different corporate banking instruments to serve the sustainability of the production of entities.

Retail and Enterprise Banking; there are main activities: fund collection, commercial installment loan, enterprise loan, non-cash loans, consumer financing and credit cards. The Bank serves in the range of products of profit share accounts creation, banking services, Trade Finance, Checks, POS services, Credit Cards, ATM services, Online Banking and Mobile Banking in these fields.

In International Banking, the relationships with foreign correspondent banks and investment institutes are executed directly or via branches abroad, representative offices and agencies. The firms, which exceed certain limits, are classified as "corporate" customers and directed to the Corporate Banking. The products are the same with the Commercial Banking. The aim of international banking is to enable foreign trade financing and develop mutual long term financing agreements with foreign banks. Besides supplying syndicated loans and issue the Sukuk for the Bank, investment banking also supplies syndicated loans in corporate basis for the firms and groups in Turkey. The Treasury in addition to monitoring foreign currency position and liquidity of the Bank, also conducts spot and forward transactions in TL or foreign currencies, performs derivative transactions (Forward, Swap) with banks and customers, trades share certificates in BIST and international markets and conducts Murabaha and gold trade transactions with foreign banks.

Specific balance sheet and income statement items according to segments:

Current Period 1 January – 31 December 2018	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Bank's total operation
Operating income	4,686,040	2,522,316	450,181	-	7,658,537
Operating expenses	3,285,436	1,354,031	490,173	1,402,840	6,532,480
Transfers between segments	2,305,206	(305,654)	(1,999,552)	-	-
Net operating income(loss)	3,705,810	862,631	(2,039,544)	(1,402,840)	1,126,057
Income from associates	-	-	-	-	-
Income (loss) before tax	3,705,810	862,631	(2,039,544)	(1,402,840)	1,126,057
Provision for taxation	-	-	-	256,245	256,245
Net income for the period	3,705,810	862,631	(2,039,544)	(1,659,085)	869,812
Current Period 31 December 2018					
Segment assets	18,471,406	27,461,414	23,753,809	-	69,686,629
Associates, subsidiaries and joint Ventures	-	-	-	547,950	547,950
Undistributed assets	-	-	-	3,997,746	3,997,746
Total assets	18,471,406	27,461,414	23,753,809	4,545,696	74,232,325
Segment liabilities	42,407,218	11,578,738	12,401,757	-	66,387,713
Undistributed liabilities	-	-	-	2,406,059	2,406,059
Shareholders' equity	-	-	-	5,438,553	5,438,553
Total liabilities	42,407,218	11,578,738	12,401,757	7,844,612	74,232,325

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Prior Period 1 January 2017 - 31 December 2017	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Bank's total Operation
Operating income	3,276,503	1,209,587	223,978	-	4,710,068
Operating expenses	1,643,791	518,512	561,744	1,137,088	3,861,135
Transfers between segments	1,207,795	(271,476)	(936,319)	-	-
Net operating income(loss)	2,840,507	419,599	(1,274,085)	(1,137,088)	848,933
Income from associates	-	-	-	-	-
Income (loss) before tax	2,840,507	419,599	(1,274,085)	(1,137,088)	848,933
Provision for taxation	-	-	-	174,942	174,942
Net income for the period	2,840,507	419,599	(1,274,085)	(1,312,030)	673,991
Prior Period 31 December 2017					
Segment assets	17,955,408	19,944,035	17,251,446	-	55,150,889
Associates, subsidiaries and joint Ventures	-	-	-	397,647	397,647
Undistributed assets	-	-	-	1,574,559	1,574,559
Total assets	17,955,408	19,944,035	17,251,446	1,972,206	57,123,095
Segment liabilities	30,626,355	9,229,646	11,295,262	-	51,151,263
Undistributed liabilities	-	-	-	1,380,681	1,380,681
Shareholders' equity	-	-	-	4,591,151	4,591,151
Total liabilities	30,626,355	9,229,646	11,295,262	5,971,832	57,123,095

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION FIVE EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS

1. Explanations and notes related to assets

1.1. Cash and balances with the Central Bank of Republic of Turkey:

1.1.1. Cash and balances with the Central Bank of Republic of Turkey:

	Current Period	
	TL	FC
Cash/foreign currency	491,059	1,348,617
The Central Bank of Republic of Turkey	692,050	6,947,252
Other ^(*)	-	957,110
Total	1,183,109	9,252,979

	Prior Period	
	TL	FC
Cash/foreign currency	366,164	933,900
The Central Bank of Republic of Turkey	255,738	6,468,109
Other ^(*)	3,120	905,825
Total	625,022	8,307,834

^(*) As of 31 December 2018, precious metal account amounting to TL 957,110 (31 December 2017- TL 693,239).

1.1.2. Balances with the Central Bank of Turkey:

	Current Period	
	TL	FC
Unrestricted demand deposit	677,230	53
Unrestricted time deposit	-	-
Restricted time deposit	14,820	6,947,199
Total	692,050	6,947,252

	Prior Period	
	TP	YP
Unrestricted demand deposit	254,185	38
Unrestricted time deposit	-	-
Restricted time deposit	1,553	6,468,071
Total	255,738	6,468,109

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 interest on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 1.5% and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 24% for all foreign currency liabilities).

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

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1.2. Information on financial assets at fair value through profit and loss:

As of 31 December 2018, there are no financial assets at fair value through profit and loss subject to repurchase transactions, given as a collateral or blocked (31 December 2017 – None).

Positive Differences Related to Derivative Financial Assets Held-for-Trading:

Financial assets at fair value through profit and loss	Current Period	
	TL	FC
Forward transactions	29,120	1,799
Swap transactions	363	10,729
Futures transactions	-	-
Options	-	-
Other	-	-
Total	29,483	12,528

Derivative financial assets held-for-trading	Prior Period	
	TL	FC
Forward transactions	11,141	5,326
Swap transactions	3,027	7,205
Futures transactions	-	-
Options	-	-
Other	-	-
Total	14,168	12,531

1.3. Information on Banks:

1.3.1. Information on banks account:

	Current Period	
	TL	FC
Banks	14,736	6,404,912
Domestic	14,631	3,608,271
Foreign	105	2,796,641
Branches and head office abroad	-	-
Total	14,736	6,404,912

	Prior Period	
	TL	FC
Banks	7,404	3,568,616
Domestic	7,245	2,413,931
Foreign	159	1,154,685
Branches and head office abroad	-	-
Total	7,404	3,568,616

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1.3.2. Information on foreign bank accounts:

	Current Period	
	Unrestricted Amount	Restricted Amount
EU Countries	1,160,613	-
USA and Canada	1,344,351	-
OECD Countries ^(*)	13,458	-
Off-shore Banking Regions	567	-
Other	277,757	-
Total	2,796,746	-
	Prior Period	
	Unrestricted Amount	Restricted Amount
EU Countries	651,025	-
USA and Canada	455,757	-
OECD Countries ^(*)	13,107	-
Off-shore Banking Regions	945	-
Other	34,010	-
Total	1,154,844	-

^(*) OECD countries other than European Union countries, USA and Canada.

1.4. Financial Assets at Fair Value Through Other Comprehensive Income:

	Current Period
Debt Securities	6,432,017
Quoted on stock exchange	6,432,017
Not quoted on stock exchange	-
Share certificates	128,489
Quoted on stock exchange	60,764
Not quoted on stock exchange	67,725
Impairment provision (-)	(164,441)
Total	6,396,065

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Prior Period
Debt Securities	4,293,722
Quoted on stock exchange	4,293,722
Not quoted on stock exchange	-
Share certificates	174,134
Quoted on stock exchange	124,923
Not quoted on stock exchange	49,211
Impairment provision (-)	(39,791)
Total	4,428,065

1.5. Information on loans:

1.5.1. All types of loans and advances given to shareholders and employees of the Bank:

	Current Period	
	Cash	Non-Cash
Direct loans granted to shareholders	1,034	398
Corporate shareholders	-	398
Real person shareholders	1,034	-
Indirect loans granted to shareholders	204,988	520
Loans granted to employees	16,311	6
Total	222,333	924

	Prior Period	
	Cash	Non-Cash
Direct loans granted to shareholders	1,030	786
Corporate shareholders	-	786
Real person shareholders	1,030	-
Indirect loans granted to shareholders	150,924	917
Loans granted to employees	18,134	3
Total	170,088	1,706

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.2. Information on first and second category loans and other receivables including restructured or rescheduled loans:

Current Period Cash Loans		Loans Under Close Monitoring			
		Restructured			
	Performing Loans	Loans and Receivables Not Subject to Restructuring	Loans and Receivables with Revised Contract Terms	Refinancing	
Loans	42,048,327	3,722,571	731,716	-	
Import Loans	26,872	506	2	-	
Export Loans	1,867,353	81,466	-	-	
Enterprise Loans	21,773,227	3,034,533	710,335	-	
Consumer Loans	6,483,386	225,107	3,883	-	
Credit Cards	746,572	46,666	16,975	-	
Loans given to financial sector	5,435,072	-	-	-	
Other	5,715,845	334,293	521	-	
Other Receivables	5,432	110,414	807	-	
Total	42,053,759	3,832,985	732,523	-	

Prior Period	Performing Loans and Other Receivables			Loans and Other Receivables under Follow-Up		
	Loans and Other Receivables (Total)	Loans and Receivables with Revised Contract Terms		Loans and Other Receivables (Total)	Loans and Receivables with Revised Contract Terms	
Cash Loans		Extension of Repayment Plan	Other		Extension of Repayment Plan	Other
Loans	34,826,622	632,516	-	1,159,692	653,608	-
Financing commodity against document	-	-	-	-	-	-
Exports Loan	43,351	16	-	603	-	-
Imports Loans	1,687,948	-	-	168	-	-
Enterprise Loans	22,064,028	610,366	-	836,171	550,430	-
Consumer Loans	6,542,769	17,986	-	212,748	46,444	-
Credit Cards	555,456	-	-	7,250	-	-
Precious Metal Loans	55,033	-	-	-	-	-
Loans Given to Financial Sector	1,226,735	-	-	1	-	-
Loans Extended Abroad	204,313	4,148	-	60,611	56,734	-
Other	2,446,989	-	-	42,140	-	-
Other Receivables	7,045	-	-	757	-	-
Total	34,833,667	632,516	-	1,160,449	653,608	-

1.5.3. Breakdown of loans and other receivables according to their maturities:

Current Period	Standard Loans	Loans and other receivables under close monitoring
12 Month Expected Credit Losses	437,198	-
Significant Increase in Credit Risk	-	655,489

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Prior Period
General Provisions	405,468
I. For Loans and Receivables in Group I (Total)	329,659
Profit Sharing Accounts' Share	116,638
The Bank's Share	213,021
Other	-
I. Additional Provision for Loans and Receivables with Extended Maturities	-
Profit Sharing Accounts' Share	-
The Bank's Share	-
Other	-
II. Loans and Receivables in Group II (Total)	22,318
Profit Sharing Accounts' Share	10,982
The Bank's Share	11,336
Other	-
II. Additional Provision for Loans and Receivables with Extended Maturities	-
Profit Sharing Accounts' Share	-
The Bank's Share	-
Other	-
Provisions for Non-Cash Loans	25,422
Other	28,069

	Loans under close monitoring		
	Standard Loans	Loans and Receivables Not Subject to Restructuring	Restructured
Cash Loans			
Short term loans	13,058,899	795,138	56,300
Medium and long term loans	28,994,860	3,037,847	676,223
Total	42,053,759	3,832,985	732,523

Prior Period	Performing Loans and Other Receivables	Loans and other receivables under Follow-Up		
	Loans and other receivables	Loans and Receivables with Revised Contract Terms	Loans and other receivables	Loans and Receivables with Revised Contract Terms
Cash Loans				
Short-term loans and other receivables	8,805,147	15,623	36,151	10,748
Loans	8,798,102	15,623	35,394	10,748
Other receivables	7,045	-	757	-
Medium and long-term loans and other receivables ^(*)	25,396,004	616,893	470,690	642,860
Loans	25,396,004	616,893	470,690	642,860
Other receivables	-	-	-	-
Total	34,201,151	632,516	506,841	653,608

^(*) Loans with have original maturities longer than a year are classified as "Medium and Long Term Loans".

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.4. Information on consumer loans, retail credit cards, loans given to personnel and personnel credit cards:

Current Period	Short Term	Medium& Long Term	Total
Consumer Loans-TL	73,283	6,511,422	6,584,705
Housing Loans	20,865	5,729,170	5,750,035
Vehicle Loans	30,836	480,515	511,351
Consumer Loans	19,859	181,876	201,735
Other	1,723	119,861	121,584
Consumer Loans-FC Indexed	-	38	38
Housing Loans	-	38	38
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	116,935	116,935
Housing Loans	-	49,281	49,281
Vehicle Loans	-	20	20
Consumer Loans	-	57,746	57,746
Other	-	9,888	9,888
Retail Credit Cards-TL	345,849	75	345,924
With Installment	66,190	75	66,265
Without Installment	279,659	-	279,659
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	1,133	9,565	10,698
Housing Loans	-	1,096	1,096
Vehicle Loans	340	4,712	5,052
Consumer Loans	791	3,757	4,548
Other	2	-	2
Personnel Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	8,779	70	8,849
With Installment	3,306	70	3,376
Without Installment	5,473	-	5,473
Personnel Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total	429,044	6,638,105	7,067,149

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Short Term	Medium& Long Term	Total
Consumer Loans-TL	57,159	6,583,441	6,640,600
Housing Loans	13,722	5,883,855	5,897,577
Vehicle Loans	15,072	379,081	394,153
Consumer Loans	21,920	182,143	204,063
Other	6,445	138,362	144,807
Consumer Loans-FC Indexed	-	1,604	1,604
Housing Loans	-	1,604	1,604
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	101,624	101,624
Housing Loans	-	34,441	34,441
Vehicle Loans	-	47	47
Consumer Loans	-	44,893	44,893
Other	-	22,243	22,243
Retail Credit Cards-TL	259,700	119	259,819
With Installment	50,251	119	50,370
Without Installment	209,449	-	209,449
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	1,467	10,222	11,689
Housing Loans	-	1,097	1,097
Vehicle Loans	258	4,665	4,923
Consumer Loans	1,207	4,460	5,667
Other	2	-	2
Personnel Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	10,151	51	10,202
With Installment	3,124	51	3,175
Without Installment	7,027	-	7,027
Personnel Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total	328,477	6,697,061	7,025,538

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1.5.5 Information on commercial installment loans and corporate credit cards:

Current Period	Short term	Medium and long term	Total
Commercial Installment Loans-TL	255,142	4,395,428	4,650,570
Business Loans	19,741	1,226,572	1,246,313
Vehicle Loans	191,863	1,615,884	1,807,747
Consumer Loans	43,538	1,552,971	1,596,509
Other	-	1	1
Commercial Installment Loans-FC Indexed	14,884	1,559,774	1,574,658
Business Loans	11,441	372,631	384,072
Vehicle Loans	3,112	245,751	248,863
Consumer Loans	331	941,392	941,723
Other	-	-	-
Commercial Installment Loans-FC	3,827	149,701	153,528
Business Loans	110,540	110,540	
Vehicle Loans	3,827	39,161	42,988
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	455,440	-	455,440
With Installment	160,745	-	160,745
Without Installment	294,695	-	294,695
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	729,293	6,104,903	6,834,196
Prior Period	Short term	Medium and long term	Total
Commercial Installment Loans-TL	203,320	4,618,220	4,821,540
Business Loans	7,379	1,237,846	1,245,225
Vehicle Loans	134,318	1,517,461	1,651,779
Consumer Loans	61,623	1,862,838	1,924,461
Other	-	75	75
Commercial Installment Loans-FC Indexed	27,462	1,644,797	1,672,259
Business Loans	14,998	339,825	354,823
Vehicle Loans	9,581	374,138	383,719
Consumer Loans	2,883	923,133	926,016
Other	-	7,701	7,701
Commercial Installment Loans-FC	-	158,204	158,204
Business Loans	-	149,908	149,908
Vehicle Loans	-	8,296	8,296
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	292,685	-	292,685
With Installment	106,201	-	106,201
Without Installment	186,484	-	186,484
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	523,467	6,421,221	6,944,688

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

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1.5.6. Allocation of loans by customers:

	Current Period
Public	75,479
Private	44,093,089
Total	44,168,568
	Prior Period
Public	17,136
Private	35,976,980
Total	35,994,116

1.5.7. Breakdown of domestic and foreign loans:

	Current Period
Domestic loans	43,830,656
Foreign loans	337,912
Total	44,168,568
	Prior Period
Domestic loans	35,729,192
Foreign loans	264,924
Total	35,994,116

1.5.8. Loans granted to subsidiaries and associates:

	Current Period
Loans granted directly to subsidiaries and associates ^(*)	121,040
Loans granted indirectly to subsidiaries and associates	-
Total	121,040
	Prior Period
Loans granted directly to subsidiaries and associates ^(*)	19
Loans granted indirectly to subsidiaries and associates	-
Total	19

^(*) The loan amounts stated above, that are granted to the subsidiaries and associates of the Bank are presented in line of "Banks" in the accompanying financial statements

1.5.9. Specific provisions for loans:

	Current Period
Specific provisions	
Loans and receivables with limited collectability	89,643
Loans and receivables with doubtful collectability	243,531
Uncollectible loans and receivables	507,882
Total	841,056
	Prior Period
Specific provisions	
Loans and receivables with limited collectability	145,827
Loans and receivables with doubtful collectability	97,155
Uncollectible loans and receivables	423,965
Total	666,947

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

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1.5.10. Information on non-performing loans (net) :

1.5.10.1. Information on non-performing loans and other receivables restructured or rescheduled:

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Current period			
(Gross amounts before specific provision)			
Restructured loans and other receivables	-	58,870	-
Rescheduled loans and other receivables	-	-	-
Prior period			
(Gross amounts before specific provision)			
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	-

1.5.10.2. Information on the movement of total non-performing loans:

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Current Period			
Ending balance of prior period 31.12.2017	158,589	117,234	438,307
Additions in the current period (+)	322,009	271,152	286,259
Transfers from other categories of non-performing loans(+)	-	260,125	298,008
Transfers to other categories of non-performing loans (-)	259,090	299,043	-
Collections in the current period (-)	78,879	38,948	192,814
Write offs (-)	-	-	103,142
Corporate and commercial loans	-	-	-
Retail loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Ending balance of the current period	-	-	-
Specific provisions (-)	142,629	310,520	726,618
Net balance at the balance sheet	89,643	243,531	507,882
Ending balance of prior period	52,986	66,989	218,736

1.5.10.3. Information on non-performing loans granted as foreign currency:

None (31 December 2017– None).

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

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1.5.10.4. Gross and net amounts of non-performing loans with respect to user groups:

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Current period (Net)	52,986	66,989	218,736
Loans granted to real persons and legal entities (Gross)	142,629	310,520	726,618
Specific provision (-)	89,643	243,531	507,882
Loans to real persons and legal entities (Net)	52,986	66,989	218,736
Banks (Gross)	-	-	-
Specific provision (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	-	-	-
Specific provision (-)	-	-	-
Other loans and receivables (Net)	-	-	-
Prior period (Net)	12,762	20,079	14,342
Loans to real persons and legal entities (Gross)	158,589	117,234	438,307
Specific provision (-)	145,827	97,155	423,965
Loans to real persons and legal entities (Net)	12,762	20,079	14,342
Banks (Gross)	-	-	-
Specific provision (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	-	-	-
Specific provision (-)	-	-	-
Other loans and receivables (Net)	-	-	-

The Bank holds collaterals like mortgage pledge, customer cheques and other collaterals against these financial assets.

1.5.10.5. Aging analysis of past due but not impaired financial assets per classes of financial instruments is as follows:

Current period	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and receivables					
Corporate loans	2,835,639	639,881	608,330	-	4,083,850
Retail loans	16,015	129,499	83,460	-	228,974
Credit cards	40,369	14,395	8,877	-	63,641
Total	2,892,023	783,775	700,667	-	4,376,465
Prior Period	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and receivables					
Corporate loans	683,541	137,828	119,108	-	940,477
Retail loans	38,107	132,728	41,889	-	212,748
Credit cards	4,764	1,736	749	-	7,250
Total	726,412	272,292	161,746	-	1,160,449

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

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1.5.10.6. Dividens accruals, rediscounts and valuation differences calculated for non-performing loans and related information about their provions:

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period (Net)	6,119	5,287	5,133
Valuation differences of profir share accruals and rediscounts	10,207	10,092	15,643
Provision Amount (-)	4,088	4,805	10,510

1.5.11. Main guidelines for liquidation process of uncollectible loans and other receivables:

Loans and other receivables, which were deemed uncollectible according to the "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published in the Official Gazette No. 26333 dated 1 November 2006 and for which a full impairment provision has been made, are written-off per the decision of the Bank top management. Within 2018, non-performing loans amounting to TL 103,142 have been written-off (31 December 2017 – TL 461,353).

1.5.12. Information on the write-off policy:

The Bank 's write-off policy is to write-off the loan receivables that have been already transferred to legal follow-up and fully provided for and for which there is no possibility of collection through legal process and for which there is no collateral. Such loans are written off as per the decision of top management.

1.6. Information on held-to-maturity investments (Net):

None (31 December 2017 - None).

1.7. Information on associates (Net):

1.7.1 The 1.54% ownership of Kredi Garanti Fonu A.Ş. of TL 4,897 (31 December 2017 – TL 4,719), 8.36% ownership of Islamic International Rating Agency of TL 714 (31 December 2017 – TL 714), and 6.99% ownership of Neova Sigorta A.Ş. of TL 5,201 (31 December 2017 – TL 5,201), TL 390 amount of swift shares (31 December 2017 – TL 390) and 0.0035% ownership of share of TL 15 (31 December 2017 – TL 15) that is traded in Borsa İstanbul A.Ş. and VISA Inc.share of TL 7,055 (31 December 2017 – TL 7,149) are classified as financial assets available for sale since the Bank's ownership in these institutions is less than 10% and the Parent Bank does not have a significant influence on these institutions.

1.7.2. Information about investments in unconsolidated associates:

None (31 December 2017 - None).

1.7.3. Information related to consolidated associates:

None (31 December 2017 - None).

1.8. Information on subsidiaries (Net):

1.8.1. Although the Bank has control power over the management and capital of its non-financial subsidiaries, these subsidiaries do not confirm to the definition of financial subsidiary in accordance with "Regulation related to the Preparation of Consolidated Financial Statements by Banks" published in the Official Gazette No. 26340 dated 8 November 2006; hence these subsidiaries which are "Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği San. ve Tic. A.Ş. has not been consolidated. The Bank has reflected its subsidiaries at restated cost less any provision for impairment in its financial statements until 31 December 2004.

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1.8.2. Information on subsidiaries:

Title	Address (City/Country)	Bank's share percentage, if different-voting Percentage (%)	Bank's risk group share Percentage (%)
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği San.ve Tic. A.Ş. ^(**)	İstanbul/Turkey	99.99%	99.99%
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/Turkey	75.00%	97.61%
KT Sukuk Varlık Kiralama A.Ş.	İstanbul/Turkey	100%	100%
KT Kira Sertifikaları Varlık Kiralama A.Ş.	İstanbul/Turkey	100%	100%
KT Bank AG ^(*)	Frankfurt/Germany	100%	100%
Architech Bilişim Sistemleri ve Pazarlama Tic A.Ş. ^(**)	İstanbul/Turkey	100%	100%
KT Sukuk Company Limited ^(***)	George Town/Cayman Islands	100%	100%

Information on subsidiaries in the order presented in the above table:

Total assets	Equity	Total fixed assets	Profit share income	Income from marketable securities	Current period profit/loss	Prior period profit /loss	Fair value
28,121	27,617	-	-	-	(4,710)	3,669	-
108,177	100,447	34,337	-	-	4,657	10,509	-
126,869	499	-	-	-	284	61	-
8,288,212	179	-	-	-	72	13	-
2,234,662	555,308	71,058	-	-	(3,330)	(33,923)	-
58,434	165,713	2,829	-	-	9,886	4,356	-
1,865,128	1	-	-	-	-	-	-

^(*) As of 31 December 2018, financial figures for this entity in the table above are based on the financial information prepared in accordance with the local regulations of the country in which this entity operates.

^(**) These figures are shown per Turkish Trade Law financial statements as at 31 December 2018.

^(***) KT Sukuk Company Limited is established in Cayman on July 31, 2015, for the need of a second subordinated loan for the Bank. According to relevant article of TFRS 10, it is described as a subsidiary.

Movement for subsidiaries

	Current period 31.12.2018
Balance at the beginning of the year	377,647
Movements during the year	
Purchases ^(*)	152,061
Transfers from subsidiaries	(5,000)
Bonus shares	-
Dividends from current year income	-
Sales ^(*)	(5,000)
Revaluation increase	3,242
(Impairment)/reversal of impairment	-
Capital commitment payments	-
Balance at the end of the year	522,950
Capital commitments	-
Share percentage at the end of the year (%)	-

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	Prior period 31.12.2017
Balance at the beginning of the year	349,513
Movements during the year	-
Purchases (*)	123,536
Transfers from subsidiaries	-
Bonus shares	-
Dividends from current year income	-
Sales (*)	(95,402)
Revaluation increase	-
(Impairment)/reversal of impairment	-
Capital commitment payments	-
Balance at the end of the year	377,647
Capital commitments	-
Share percentage at the end of the year (%)	-

(*)The Bank has signed a contract with KFH Capital Investment Company on 5 October 2017 to transfer 50% of the shares of KT Portföy Yönetimi AŞ (Subsidiary). On 20 July 2018, KFH Capital Investment Company has transferred a 50% stake in its subsidiary, which has a capital of TL 10,000, to TL 16,901. The Bank follows its subsidiary in a jointly controlled business status.

(**)Indicates and impairment loss.

Sectoral information on consolidated subsidiaries and the related carrying amounts:

	Current Period
Banks	445,755
Insurance Companies	-
Factoring Companies	-
Leasing Companies	-
Finance Companies	-
Other Financial Subsidiaries	53,515
	Prior Period
Banks	293,694
Insurance Companies	-
Factoring Companies	-
Leasing Companies	-
Finance Companies	-
Other Financial Subsidiaries	60,273

Subsidiaries that are quoted on the stock exchange

	Current Period
Quoted on Domestic Stock Exchanges	53,415
Quoted on International Stock Exchanges	-
Total	53,415
	Prior Period
Quoted on Domestic Stock Exchanges	50,173
Quoted on International Stock Exchanges	-
Total	50,173

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1.8.3. Information on capital adequacies of major subsidiaries:

The shareholder's equity of KT Bank AG, the subsidiary of the Bank in Germany, calculated at 31 December 2018 is EUR 84,042,977 and the capital adequacy ratio is 32.46%.

1.9. Information on joint ventures (business partnerships) (Net):

	Bank's share percentage	Total Assets	Equity	Total fixed assets	Current period profit/loss	Prior period profit/loss
Katılım Emeklilik ve Hayat A.Ş. ^{(*) (**) (***)}	50%	1,672,519	40,000	7,633	14,497	7,883
KT Portföy Yönetimi A.Ş. ^(***)	50%	8,082	6,784	114	431	(1,221)

^(*) Amounts are from financial statements as of 31 December 2018.

^(**) In accordance with decision of the Bank's Board of Directors on 25 April 2013, Kuveyt Türk Katılım Bankası A.Ş. and Albaraka Türk Katılım Bankası A.Ş. decided to establish a Pension Company in line with main shares. Bank decided to establish that pension company with the equal share amounts with Albaraka Türk Katılım Bankası A.Ş. and that pension company is registered with the trade name "Katılım Emeklilik ve Hayat Anonim Şirketi", 895027 registry numbered dated 17 December 2013 by İstanbul Ticaret Sicil Müdürlüğü.

^(***) The Bank has signed a contract with KFH Capital Investment Company on 5 October 2017 to transfer 50% of the shares of KT Asset Management (Subsidiary). On 20 July 2018, KFH Capital Investment Company has transferred a 50% stake in its subsidiary, which has a capital of TL 10,000, to TL 16,901. The Bank follows its subsidiary in a jointly controlled business status.

1.10. Information on finance lease receivables (Net):

1.10.1. Presentation of remaining maturities of net finance leases:

	Current Period	
	Gross	Net
Less than 1 year	1,674,227	1,307,276
1 to 4 years	910,320	854,221
More than 4 years	297,345	289,202
Total	2,881,892	2,450,699

	Prior Period	
	Gross	Net
Less than 1 year	1,499,971	1,223,929
1 to 4 years	565,336	532,824
More than 4 years	178,945	172,489
Total	2,244,252	1,929,242

1.10.2. Information on net investments in finance leases:

	Current Period
Gross receivable from finance leases	2,881,892
Unearned finance lease income (-)	(431,193)
Cancelled amounts (-)	-
Net receivable from finance leases	2,450,699
	Prior Period
Gross receivable from finance leases	2,244,252
Unearned finance lease income (-)	(315,010)
Cancelled amounts (-)	-
Net receivable from finance leases	1,929,242

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1.10.3. Information on finance lease contracts:

The Bank determines the installments of the financial lease agreements in accordance with related legislations. Payment terms and amounts may be modified with additional agreements upon customers' requests. On the agreements, the Bank gives the customer the option to buy the related property. According to the Financial Lease Law, if a customer does not fulfill its obligations in 60 days, the Bank sends a notice to the customer and the Bank takes legal action against the customer if necessary. Non performing finance lease receivables amounting to TL 9,493 are included in the non-performing loans in the balance sheet (31 December 2017- TL 5,040).

1.11. Information on derivative financial assets for hedging purposes:

None (31 December 2017 – None).

1.12. Explanations on Tangible Assets (Net)

	Buildings	Leased Tangible Assets	Vehicles	Other Tangible Assets	Total
At End of Prior Period: 31 December 2017					
Cost	234,653	7,957	1,819	383,949	628,378
Accumulated Depreciation (-)	32,575	2,812	788	182,460	218,635
Net Book Value	202,078	5,145	1,031	201,489	409,743
At End of Current Period: 31 December 2018					
Net book value at beginning of period	202,078	5,145	1,031	201,489	409,743
Additions	529	239,170	45,410	16,531	301,640
Disposals (-)	151,589	-	-	-	151,589
Transfers to assets held for sale (-)	-	-	-	1,208	1,208
Transfer from assets held for sale	-	-	-	40,170	40,170
Impairment of Impairment Losses	-	-	-	-	-
Depreciation Expense (-)	(10,252)	804	333	70,718	61,603
Reversal of Impairment Losses	151,735	-	-	-	151,735
Cost at period end	235,328	247,127	47,229	439,442	969,126
Accumulated depreciation end of period (-)	22,323	3,616	1,121	253,178	280,238
Closing net book value	213,005	243,511	46,108	186,264	688,888
At End of Prior Period: 31 December 2016					
Cost	259,427	7,694	795	306,378	574,294
Accumulated Depreciation (-)	26,936	2,042	680	134,605	164,263
Net Book Value	232,491	5,652	115	171,773	410,031
At End of Current Period: 31 December 2017					
Net book value at beginning of period	232,491	5,652	115	171,773	410,031
Additions	1,684	263	1,024	77,571	80,542
Disposals (-)	26,458	-	-	-	26,458
Transfers to assets held for sale (-)	-	-	-	-	-
Transfer from assets held for sale	-	-	-	-	-
Impairment of Impairment Losses	-	-	-	-	-
Depreciation Expense (-)	5,639	770	108	47,855	54,372
Reversal of Impairment Losses	234,653	7,957	1,819	383,949	628,378
Cost at period end	32,575	2,812	788	182,460	218,635
Closing net book value	202,078	5,145	1,031	201,489	409,743

In 2018, the Bank sold a real estate to KT Kira Sertifikaları Varlık Kiralama A.Ş. which is a subsidiary of the bank, amounting to TL 236,500 thousand in terms of sale and lease back. As a result of this transaction, Bank has recorded TL 135,900 thousand income and TL 87,696 thousand unearned income. Subsequently, the Bank leased the same property back by financial leasing.

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1.13. Explanations on Intangible Assets:

1.13.1. Gross carrying value and accumulated amortization balances at beginning and at the end of the period:

	Current Period
Cost	278,635
Accumulated Amortization	(141,656)
Total (net)	136,979
	Prior Period
Cost	230,968
Accumulated Amortization	(111,956)
Total (net)	119,012

1.13.2. Movements of intangible assets :

	Current Period
Opening balance	119,012
Additions	96,918
Disposals (-), net	22,648
Depreciation amount (-)	56,303
Closing net book value	136,979
	Prior Period
Opening balance	95,108
Additions	50,889
Disposals (-), net	1,928
Depreciation amount (-)	25,057
Closing net book value	119,012

Intangible assets include computer software and program licenses which are taken for banking systems.

1.14. Explanations on investment property:

	Current Period
Opening balance	25,419
Additions	44
Disposals (-), net	-
Depreciation amount (-)	158
Closing net book value	25,305
	Prior Period
Opening balance	-
Additions	25,577
Disposals (-), net	-
Depreciation amount (-)	158
Closing net book value	25,419

^(*) The fair value of the investment property is TL 30,900 and the level is classified as level two in the fair value hierarchy.

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1.15. Information on deferred tax asset:

In accordance with the related regulations deferred tax asset calculated as of 31 December 2018 is TL 362,096 (31 December 2017 – TL 157,245) and deferred tax liability is TL 15,456 (31 December 2017 – TL 18,535).

	Current Period
Reserve for employee benefits	31,297
Retirement pay liability	17,412
Deferred income	55,507
Rediscounts for derivative financial instruments for hedging purposes	30,080
TFRS 9 Provisions	192,935
Precious metals valuation difference	2,031
Other	32,834
Deferred tax asset	362,096
	362,096
Difference between carrying value and tax base of tangible assets	(7,293)
Valuation Difference on financial assets at fair value through other comprehensive income	(3,691)
Other	(4,472)
Deferred tax liability	(15,456)
Deferred tax asset, (net)	346,640
	Prior Period
Reserve for employee benefits	20,197
Retirement pay liability	16,788
Deferred income	46,597
Rediscounts for derivative instruments held for trading	26,181
Impairment provision for subsidiaries, fixed assets and assets held for sale	36,436
Other	11,046
Deferred tax asset	157,245
Difference between carrying value and tax base of tangible assets	(10,044)
Valuation difference on available for sale financial asset	(3,556)
Valuation difference on precious metal	(652)
Other	(4,283)
Deferred tax liability	(18,535)
Deferred tax asset, (net)	138,710

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Table for deferred tax asset movement:

	Current Period
As of January 1	138,710
Deferred tax income	197,896
Deferred tax accounted under shareholders' equity	19,021
TFRS 9 Effect	(8,987)
Deferred tax asset	346,640
	Prior Period
As of January 1	118,112
Deferred tax income	22,696
Deferred tax accounted under shareholders' equity	(2,098)
Deferred tax asset	138,710

1.16. Assets held for sale and assets of discontinued operations:

The Bank has accounted for the fixed assets obtained from the receivables with the net book value and the lesser of its fair value.

	Current Period
Opening balance	117,006
Additions	203,974
Transfer from tangible assets	1,208
Disposals (-), net	11,636
Transfer to tangible assets	40,170
Depreciation amount (-)	-
Impairment losses provision (-)	-
Closing net book value	270,382
	Prior Period
Opening balance	47,975
Additions	30,957
Transfer from tangible assets	38,853
Disposals (-), net	779
Transfer to tangible assets	-
Depreciation amount (-)	-
Impairment losses provision (-)	-
Closing net book value	117,006

1.17. Information on other assets:

As of balance sheet date, the Bank's other assets amount to TL 2,799,934 (31 December 2017 - TL 764,669). Other assets balance does not exceed 10% of the total assets on the balance sheet excluding off balance sheet commitments.

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2. Explanations and Notes Related to Liabilities

2.1. Information on funds collected:

2.1.1. Information on maturity structure of funds collected:

Current Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real persons current accounts- TL	4,753,832	-	-	-	-	-	-	-	4,753,832
II. Real persons profit sharing accounts TL	-	4,802,842	7,316,485	424,115	-	229,178	266,378	17,002	13,056,000
III. Other current accounts-TL	3,092,182	-	-	-	-	-	-	-	3,092,182
Public sector	186,809	-	-	-	-	-	-	-	186,809
Commercial sector	2,851,256	-	-	-	-	-	-	-	2,851,256
Other institutions	46,276	-	-	-	-	-	-	-	46,276
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	7,841	-	-	-	-	-	-	-	7,841
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	7,708	-	-	-	-	-	-	-	7,708
Participation banks	133	-	-	-	-	-	-	-	133
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	423,645	761,309	112,589	-	246,581	74,182	-	1,618,306
Public sector	-	146	2,285	-	-	1,388	-	-	3,819
Commercial sector	-	380,225	698,953	102,196	-	233,421	72,119	-	1,486,914
Other institutions	-	43,258	60,055	10,342	-	11,763	1,859	-	127,277
Commercial and other institutions	-	16	-	51	-	8	204	-	279
Banks and participation banks	-	-	16	-	-	1	-	-	17
V. Real persons current accounts- FC	8,080,999	-	-	-	-	-	-	-	8,080,999
VI. Real persons profit sharing accounts-FC	-	3,923,178	6,085,488	961,802	-	537,731	339,707	993	11,848,899
VII. Other current accounts-FC	3,593,287	-	-	-	-	-	-	-	3,593,287
Commercial residents in Turkey	3,254,669	-	-	-	-	-	-	-	3,254,669
Commercial residents in Abroad	242,275	-	-	-	-	-	-	-	242,275
Banks and participation banks	96,343	-	-	-	-	-	-	-	96,343
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	96,238	-	-	-	-	-	-	-	96,238
Participation banks	105	-	-	-	-	-	-	-	105
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts- FC	-	443,390	2,174,742	208,184	-	16,061	9,678	363	2,852,418
Public sector	-	39	3	-	-	-	-	-	42
Commercial sector	-	409,203	2,007,121	203,238	-	15,935	9,592	363	2,645,452
Other institutions	-	16,693	68,699	106	-	103	-	-	85,601
Commercial and other institutions	-	17,448	71,143	4,840	-	23	-	-	93,454
Banks and participation banks	-	7	27,776	-	-	-	86	-	27,869
IX. Precious metal funds	2,588,233	1,020,239	1,205,547	212,397	-	61,746	2,174	19	5,090,355
X. Profit sharing accounts special funds - TL	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit sharing accounts special funds - FC	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total	22,108,533	10,613,294	17,543,571	1,919,087	-	1,091,297	692,119	18,377	53,986,278

There are no 7 day notification and accumulative deposit accounts of the Bank.

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Prior Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real persons current accounts- TL	4,089,584	-	-	-	-	-	-	-	4,089,584
II. Real persons profit sharing accounts TL	-	3,920,064	6,325,033	449,754	-	245,635	194,490	-	11,134,976
III. Other current accounts-TL	2,896,840	-	-	-	-	-	-	-	2,896,840
Public sector	70,537	-	-	-	-	-	-	-	70,537
Commercial sector	2,779,505	-	-	-	-	-	-	-	2,779,505
Other institutions	42,423	-	-	-	-	-	-	-	42,423
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	4,375	-	-	-	-	-	-	-	4,375
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	3,875	-	-	-	-	-	-	-	3,875
Participation banks	500	-	-	-	-	-	-	-	500
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	421,907	960,907	131,032	-	193,737	126,429	-	1,834,012
Public sector	-	108	34,391	-	-	29	-	-	34,528
Commercial sector	-	394,722	852,072	122,025	-	187,200	124,735	-	1,680,754
Other institutions	-	27,062	74,334	9,007	-	6,505	1,694	-	118,602
Commercial and other institutions	-	15	96	-	-	3	-	-	114
Banks and participation banks	-	-	14	-	-	-	-	-	14
V. Real persons current accounts- FC	4,884,717	-	-	-	-	-	-	-	4,884,717
VI. Real persons profit sharing accounts-FC	-	2,399,627	4,032,310	850,291	-	414,946	202,380	-	7,899,554
VII. Other current accounts-FC	2,693,621	-	-	-	-	-	-	-	2,693,621
Commercial residents in Turkey	2,444,250	-	-	-	-	-	-	-	2,444,250
Commercial residents in Abroad	158,115	-	-	-	-	-	-	-	158,115
Banks and participation banks	91,256	-	-	-	-	-	-	-	91,256
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	91,256	-	-	-	-	-	-	-	91,256
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts- FC	-	329,872	927,386	76,275	-	158,850	11,479	-	1,503,862
Public sector	-	5	47	-	-	-	-	-	52
Commercial sector	-	274,980	853,938	56,189	-	157,843	11,393	-	1,354,343
Other institutions	-	24,687	25,848	48	-	423	-	-	51,006
Commercial and other institutions	-	30,195	39,112	20,038	-	584	-	-	89,929
Banks and participation banks	-	5	8,441	-	-	-	86	-	8,532
IX. Precious metal funds	1,478,274	270,605	1,038,183	87,510	-	45,658	4	-	2,920,234
X. Profit sharing accounts special funds - TL	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit sharing accounts special funds - FC	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total	16,043,036	7,342,075	13,283,819	1,594,862	-	1,058,826	534,782	-	39,857,400

There are no 7 day notification and accumulative deposit accounts of the Bank.

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2.1.2. Information's on current and profit share accounts that are in the scope of Saving Deposit/Saving Deposit Insurance Fund:

2.1.2.1. Current and Participation Accounts Attributable to Real Entities/Persons under the Guarantee of Saving Deposit Insurance Fund Exceeding the Limit of the Deposit Insurance Fund:

	Under the guarantee of saving deposit insurance	Exceeding the limit of saving Deposit
	Current Period	Current Period
Real persons current and profit sharing accounts that are not subject to commercial activities		
TL accounts	10,848,810	6,836,543
FC accounts	8,572,475	15,911,931
Foreign branches' deposits under foreign authorities' insurance	-	-
Off-shore banking regions' under foreign authorities' insurance	-	-
	Under the guarantee of saving deposit insurance	Exceeding the limit of saving Deposit
	Prior Period	Prior Period
Real persons current and profit sharing accounts that are not subject to commercial activities		
TL accounts	9,730,510	5,440,996
FC accounts	5,804,410	9,535,405
Foreign branches' deposits under foreign authorities' insurance	-	-
Off-shore banking regions' under foreign authorities' insurance	-	-

Funds collected by Participation Banks (except for foreign branches) through current and profit share accounts which are opened by real persons and denominated in Turkish Lira or foreign currency with a limit of maximum of TL 100 (including both capital and profit shares) for each person is under the guarantee of Saving Deposit Insurance Fund in accordance with the Banking Law No. 5411.

2.1.2.2. If the headquarters of the Bank is abroad and the deposit account in its Turkish branch is in the scope of the insurance policy in the country of the headquarter of the Bank is founded, it should be explained:

The headquarters of the Bank is in Turkey.

2.1.2.3. Current and Profit Share Accounts of the real persons who are not in the scope of Saving Deposits Insurance Fund:

The Bank has no current or profit sharing accounts which are not under the guarantee of the Saving Deposit Insurance Fund except for the current and profit sharing accounts of shareholders, member of Board of Directors, CEO, the Vice Presidents and their first degree relatives.

	Current Period
Foreign branches' profit sharing accounts and other accounts	-
Profit sharing accounts and other accounts of controlling shareholders and profit sharing accounts of their mother, father, spouse, children in care	-
Profit sharing account and other accounts of President and Members of Board of Directors, CEO and Vice Presidents and profit sharing accounts of their mother, father, spouse and children in care	5,677
Profit sharing account and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish Criminal Law No:5237 dated 26 September 2004	-
Profit sharing accounts in participation banks which are established in Turkey in order to engage in off-shore banking activities	-

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	Prior Period
Foreign branches' profit sharing accounts and other accounts	-
Profit sharing accounts and other accounts of controlling shareholders and profit sharing accounts of their mother, father, spouse, children in care	-
Profit sharing account and other accounts of President and Members of Board of Directors, CEO and Vice Presidents and profit sharing accounts of their mother, father, spouse and children in care	4,573
Profit sharing account and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish Criminal Law No:5237 dated 26 September 2004	-
Profit sharing accounts in participation banks which are established in Turkey in order to engage in off-shore banking activities	-

2.2. Information on derivative financial liabilities held for trading:

Derivative financial liabilities held for trading:

	Current Period	
	TL	FC
Forward transactions	20,764	1,362
Swap transactions	281	40,574
Futures transactions	-	-
Options	-	-
Other	-	-
Total	21,045	41,936

	Prior Period	
	TL	FC
Forward transactions	10,269	4,679
Swap transactions	11,177	54,572
Futures transactions	-	-
Options	-	-
Other	-	-
Total	21,446	59,251

2.3. Information on funds borrowed:

2.3.1. Information on banks and other financial institutions:

	Current Period	
	TL	FC
Loans from The Central Bank of the Republic of Turkey	-	-
From Domestic Banks and Institutions	2,038,900	6,657,758
From Foreign Banks, Institutions and Funds	-	1,446,231
Total	2,038,900	8,103,989

	Prior Period	
	TL	FC
Loans from The Central Bank of the Republic of Turkey	-	-
From Domestic Banks and Institutions	1,199,428	4,835,605
From Foreign Banks, Institutions and Funds	58,873	2,937,603
Total	1,258,301	7,773,208

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2.3.2. Information on maturity structure of borrowings:

	Current Period	
	TP	YP
Short-term	2,038,900	4,254,863
Medium and Long-Term	-	3,849,126
Total	2,038,900	8,103,989

	Prior Period	
	TP	YP
Short-term	1,223,292	3,054,515
Medium and Long-Term	35,009	4,718,693
Total	1,258,301	7,773,208

2.3.3. Explanations related to the concentrations of the Bank's major liabilities:

All of the borrowings consist of foreign currency loans and majorly they are formed by the transactions with the off-shore financial institutions.

2.4. Information on other liabilities and miscellaneous payables:

As of 31 December 2018, other liabilities amounting TL 1,172,585 (31 December 2017 – TL 334,851), sundry creditors amounting to TL 261,894 (31 December 2017 – TL 198,119), both of them do not exceed 10% of the balance sheet total.

2.5. Information on finance lease payables (net):

The Bank bought some of the information technology equipment through financial lease and the liabilities originated from the agreements are paid in monthly installments to the leasing firms. These agreements do not raise any further liabilities other than already committed payments by the Bank.

2.5.1. Information on the changes in agreements and new obligations originating from these changes:

None (31 December 2017 – None).

2.5.1.1. Information on Financial Lease Obligations

None (31 December 2017 – None).

2.5.1.2. Information on Operational Leases:

The leasing transactions, in which all risks and benefits of the leased asset are held by the lessor, are classified as operational leases. Such transactions consist of rent contracts of branches which may be cancelled by declaration. There are no significant commitments regarding the changes at the operational lease agreements. The payments related with operational leases are recognized as expense in the income statement during the period of the agreement in equal installments.

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2.6. Information on hedging derivative financial liabilities:

	Current Period	
	TL	FC
Fair value hedge	-	-
Cash flow hedge	-	106,352
Hedge of net investment in foreign operations	-	-
Total	-	106,352

	Prior Period	
	TL	FC
Fair value hedge	-	-
Cash flow hedge	-	70,795
Hedge of net investment in foreign operations	-	-
Total	-	70,795

2.7. Information on provisions:

2.7.1. Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans: As of 31 December 2018, effect of decrease in exchange rates on foreign currency indexed loans amounting to TL 4,654 (31 December 2017 – TL 19,143) and TL 1,266 (31 December 2017 – TL 376) is offset against loans and receivables.

2.7.2. Information on other provisions:

	Current Period
Provisions for non- liquidated non cash loans	240,373
Provisions for cheque books	145,911
Provisions from equity/profit sharing accounts	129,152
Provisions for Promotion Activities for Credit Cards	1,778
Other ^(*)	50,040
Total	567,254

	Prior Period
Provisions for non- liquidated non cash loans	95,685
Provisions for cheque books	2,276
Provisions from equity/profit sharing accounts	30,422
Provisions for Promotion Activities for Credit Cards	1,242
Other ^(*)	71,298
Total	200,923

^(*) Other item includes TL 13,780 (31 December 2017 – TL 6,915) litigation provision, TL 6,500 (31 December 2017 – TL 6,500) expense provision, TL 29,761 (31 December 2017 – TL 43,433) other provisions and TL 0 (31 December 2017 – 14,450) includes provision amount for projected repayment of delay penalties.

2.7.3. Information on provisions for employee benefits:

Provisions for employee benefits consist of reserve for employee termination benefits amounting to, TL 86,381 (31 December 2017 – TL 83,942), vacation pay liability amounting to TL 585 (31 December 2017 – TL 522), performance premium amounting TL 86,617 (31 Aralık 2017 – TL 69,794), retirement bonuses on payment of TL 44,014 (31 December 2017 – TL 23,500) and committee fee amounting to 10,869 TL (31 December 2017 – TL 7,291) and other provisions amounting to TL 175 (31 December 2017 – None).

Under the Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or retires or earns the right to retire.

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The amount payable consists of one month's salary limited to a maximum of TL 5,434 (31 December 2017 – TL 4,732) for each year of service. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees. TAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

	Current Period
Discount Rate (%)	16,30
Inflation rate (%)	12,00
Interest rate (%)	13,00
	Prior Period
Discount Rate (%)	11.60
Inflation rate (%)	8.90
Interest rate (%)	9.90

Movements in the reserve for employment termination benefits during period are as follows:

	Current Period
Balance at the beginning of the period	83,942
Provisions provided during the period	23,362
Paid during the period	(3,859)
Actuarial gain/loss	(17,064)
Balances at the end of the period	86,381
	Prior Period
Balance at the beginning of the period	55,291
Provisions provided during the period	17,395
Paid during the period	(5,237)
Actuarial gain/loss	16,493
Balances at the end of the period	83,942

2.8. Explanations on tax liability:

2.8.1. Explanations on current tax liability:

2.8.1.1. Information on tax provisions: As of 31 December 2018, the Bank has current tax liability after deducting temporary taxes paid during the period from the provision for corporate income tax amounting to TL 175,685.

	Current Period
Provision for corporate income tax	454,141
Prepaid taxes	(278,456)
Total ^(*)	175,685
	Prior Period
Provision for corporate income tax	199,529
Prepaid taxes	(143,258)
Total ^(*)	56,271

^(*) It is presented in the current tax liability line, under liabilities.

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2.8.1.2. Information on taxes payable:

	Current Period
Taxation of marketable securities	21,252
Taxation of immovable property	1,569
Banking Insurance Transaction Tax (BITT)	32,461
Value Added Tax Payable	1,904
Income tax deducted from wages	9,675
Other	1,130
Total	67,991
	Prior Period
Taxation of marketable securities	19,651
Taxation of immovable property	1,185
Banking Insurance Transaction Tax (BITT)	18,431
Value Added Tax Payable	1,349
Income tax deducted from wages	8,192
Other	1,128
Total	49,936

2.8.1.3. Information on premiums ^(*):

	Current Period
Social Security Premiums-Employee	5,640
Social Security Premiums-Employer	6,075
Unemployment insurance-Employee	404
Unemployment insurance-Employer	952
Total	13,071
	Prior Period
Social Security Premiums-Employee	4,862
Social Security Premiums-Employer	5,234
Unemployment insurance-Employee	348
Unemployment insurance-Employer	801
Total	11,245

^(*) Included in sundry creditors line item on the balance sheet.

2.8.1.4. Information on deferred tax liability:

None (31 December 2017 - None)

2.9. Information on liabilities of assets held for sale and discontinued operations:

None (31 December 2017 - None)

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2.10. Information on subordinated loans:

	Current Period	
	TL	FC
From Domestic Banks	-	-
From Other Domestic Institutions	-	-
From Foreign Banks	-	1,901,210
From Other Foreign Institutions	-	-
Total	-	1,901,210
	Prior Period	
	TL	FC
From Domestic Banks	-	-
From Other Domestic Institutions	-	-
From Foreign Banks	-	1,360,338
From Other Foreign Institutions	-	-
Toplam	-	1,360,338

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 contributinal 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.

2.11. Information on shareholders' equity :

2.11.1. Presentation of paid-in capital:

	Current Period
Common shares	3,500,000
Preference shares	-
Repurchased shares amount ^(*)	(2,678)
Total	3,497,322
	Prior Period
Common shares	3,100,000
Preference shares	-
Repurchased shares amount ^(*)	(2,678)
Total	3,097,322

^(*) It represents the Bank's acquisition of its own shares as a result of the other shareholders not using their right of preference according to the commitment made in the capital increase in the Bank

2.11.2. Amount of paid-in capital, disclosure on whether the bank applies the registered share capital system, and, if so, the ceiling amount of the registered share capital:

Registered capital system is not applied in the bank.

2.11.3. Information on the share capital increases during the period and their sources; other information on increased capital shares in the current period:

Date for Increase	Increased Amount	Internal Sources	Retained Earnings for Increased
3 April 2018	400,000	400,000	-

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2.11.4. Information on share capital increases from capital reserves during the current period:

None. (31 December 2017 – None)

2.11.5. Possible effect of estimations made for the Bank's revenues, profitability and liquidity on equity considering prior period indicators and uncertainties:

Based on the evaluation made considering the Bank's prior and current period indicators related to net profit share and commission income, it is observed that the Bank continues its operations profitably.

2.11.6. Summary of privileges given to shares representing the capital:

None. (31 December 2017 – None)

2.11.7. Information on marketable securities value increase fund:

	Current Period	
	TL	FC
From Associates, Subsidiaries and Entities Under Common Control (Joint Vent.)	--	-
Valuation Difference (*)	(29,522)	(51,432)
Foreign Exchange Difference	-	-
Total	(29,522)	(51,432)

	Prior Period	
	TL	FC
From Associates, Subsidiaries and Entities Under Common Control (Joint Vent.)	-	-
Valuation Difference (*)	(23,192)	12,609
Foreign Exchange Difference	-	-
Total	(23,192)	12,609

(*) Valuation difference is calculated taking the tax effect of the rent certifications in the account, which are classified as "Government Debt Securities" and "Other Marketable Securities" under available for sale in the balance sheet.

2.12. Information on minority shares:

None (31 December 2017 – None)

3. Explanations and notes related to off-balance sheet commitments

3.1. Explanations on off-balance sheet accounts:

3.1.1. Type and amount of irrevocable commitments :

Commitment for credit card limits, as of 31 December 2018 is TL 1,858,018 (31 December 2017 – TL 1,357,354); payment commitments for cheque books are TL 1,136,474 (31 December 2017 – TL 1,345,239).

3.1.2. Type and amount of probable losses and obligations arising from off-balance sheet items :

3.1.2.1. Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letter of credits:

As of 31 December 2018, the Bank has guarantees and suretyships constituting TL 10,389,398 (31 December 2017 – TL 9,566,138) letters of guarantee; TL 74,098 (31 December 2017 – TL 55,958) acceptances and TL 1,079,876 (31 December 2017 – TL 932,100) letters of credit. In addition, the Bank has also Other Guarantees and Securities amounting to TL 324,718 (31 December 2017 – TL 513,959)

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3.1.2.2. Revocable, irrevocable guarantees and other similar commitments and contingencies:

There are no other than those explained in 2.i.

3.1.3. Total amount of non-cash loans:

	Current Period
Non-cash loans given against cash loans	-
With original maturity of 1 year or less	-
With original maturity of more than 1 year	-
Other non-cash loans	11,868,090
Total	11,868,090
	Prior Period
Non-cash loans given against cash loans	-
With original maturity of 1 year or less	-
With original maturity of more than 1 year	-
Other non-cash loans	11,068,155
Total	11,068,155

3.1.4. Sectorial risk concentration of non-cash loans:

	Current Period			
	TL	(%)	FC	(%)
Agriculture	59,926	0.93	5,316	0.10
Farming and Stockbreeding	33,396	0.52	2,812	0.05
Forestry	26,530	0.41	2,504	0.05
Fishery	-	-	-	-
Manufacturing	1,217,028	18.97	843,763	15.48
Mining and quarrying	259,085	4.04	258,253	4.74
Production	551,993	8.60	560,254	10.28
Electricity, Gas, Water	405,950	6.33	25,256	0.46
Construction	2,661,157	41.47	1,225,516	22.48
Services	1,798,834	28.03	2,241,769	41.12
Wholesale and Retail Trade	862,869	13.45	602,006	11.04
Hotel, Food and Beverage Services	96,061	1.50	80,239	1.47
Transportation and Telecom.	454,742	7.09	1,157,055	21.22
Financial Institutions	19,596	0.31	274,267	5.03
Real Estate and Renting Services	24,755	0.39	7,644	0.14
"Self-Employment" Type Services	107	0.00	-	-
Educational Services	34,881	0.54	8,732	0.16
Health and Social Services	305,823	4.77	111,826	2.05
Other	679,688	10.59	1,135,093	20.82
Total	6,416,633	100.00	5,451,457	100.00

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	Prior Period			
	TL	(%)	FC	(%)
Agriculture	48,091	0.74	5,538	0.12
Farming and Stockbreeding	20,246	0.31	4,013	0.09
Forestry	27,808	0.43	1,525	0.03
Fishery	37	0.00	-	-
Manufacturing	1,121,211	17.24	799,207	17.49
Mining and quarrying	202,241	3.11	274,708	6.01
Production	463,059	7.12	496,475	10.87
Electricity, Gas, Water	455,911	7.01	28,024	0.61
Construction	2,550,357	39.23	1,146,399	25.10
Services	1,783,281	27.42	1,767,303	38.69
Wholesale and Retail Trade	745,878	11.47	546,190	11.96
Hotel, Food and Beverage Services	79,406	1.22	36,509	0.80
Transportation and Telecom.	470,117	7.23	774,580	16.96
Financial Institutions	6,074	0.09	297,965	6.52
Real Estate and Renting Services	81,800	1.26	3,419	0.07
"Self-Employment" Type Services	92	0.00	-	-
Educational Services	33,252	0.51	3,006	0.07
Health and Social Services	366,662	5.64	105,634	2.31
Other	998,140	15.35	848,628	18.58
Total	6,501,080	100.00	4,567,075	100.00

3.1.5. Non-cash loans classified under Group I and II:

Current Period	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	6,184,965	5,407,447	231,668	44,010
Letters of Guarantee	5,976,533	4,162,862	230,353	19,650
Bills of Exchange and Bank Acceptances	17,516	56,582	-	-
Letters of Credit	10,720	1,044,004	792	24,360
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Sureties	180,196	143,999	523	-

Prior Period	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	6,445,915	4,543,043	55,165	24,032
Letters of Guarantee	6,287,400	3,204,215	55,165	19,358
Bills of Exchange and Bank Acceptances	2,549	53,409	-	-
Letters of Credit	1,143	926,283	-	4,674
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Sureties	154,823	359,136	-	-

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3.2. Financial derivative instruments:

	Trading Derivatives Current Period
Foreign Currency Related Derivative	
Foreign Currency Related Derivative	
Transactions (I):	21,215,164
Currency Forwards-Purchases, sales	2,408,123
Currency Swaps-Purchases, sales	18,807,041
Currency Futures	-
Currency Options-Purchases, sales	-
Interest Rate Related Derivative	
Transactions(II):	-
Interest rates forwards-Purchase, sales	-
Interest rates swaps-Purchases, sales	-
Interest rates options-Purchases, sales	-
Interest rates futures-Purchases, sales	-
Other Trading Derivatives (III)	3,121
A.Total Trading Derivatives (I+II+III)	21,218,285
Hedging Derivatives	
Fair value hedges	-
Cash flow hedges	2,165,533
Foreign currency investment hedges	-
B. Total Hedging Derivatives	2,165,533
Total Derivatives Transactions (A+B)	23,383,818
	Trading Derivatives Prior Period
Foreign Currency Related Derivative	
Foreign Currency Related Derivative	
Transactions (I):	13,645,542
Currency Forwards-Purchases, sales	2,436,521
Currency Swaps-Purchases, sales	11,209,021
Currency Futures	-
Currency Options-Purchases, sales	-
Interest Rate Related Derivative	
Transactions(II):	-
Interest rates forwards-Purchase, sales	-
Interest rates swaps-Purchases, sales	-
Interest rates options-Purchases, sales	-
Interest rates futures-Purchases, sales	-
Other Trading Derivatives (III)	7,966
A.Total Trading Derivatives (I+II+III)	13,653,508
Hedging Derivatives	
Fair value hedges	-
Cash flow hedges	1,565,503
Foreign currency investment hedges	-
B. Total Hedging Derivatives	1,565,503
Total Derivatives Transactions (A+B)	15,219,011

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The Bank enters into short term swap transactions based on its market expectations and cash flow. These transactions are generally short term and consist of foreign currency to foreign currency and foreign currency to Turkish Lira agreements. As of 31 December 2018, the Bank has commitments to buy TL 633,559, USD 1,709,657,000, EUR 57,831,000, GBP 10,039,000 and MYR 800,000,000 in return of selling commitments of TL 304,995, USD 399,261,000, EUR 1,545,406,000 and GBP 89,000 (As of 31 December 2017, the Bank has commitments to buy TL 728,960, USD 1,361,922,000, EUR 81,070,000, GBP 29,404,000 and 800,000,000 MYR in return of selling commitments of TL 963,256, USD 514,739,000, EUR 964,634,000 and GBP 19,364,000).

3.3. Credit derivatives and risk exposures on credit derivatives:

None.

3.4. Contingent liabilities and assets:

In accordance with decision of the Bank's Board of Directors numbered 1117 and dated 21 June 2011, recoverable foreign currency loan granting commitments to real and legal persons and who do not have the unconditional right to utilize these commitment has been translated into Turkish Lira and no longer followed as foreign currency commitments.

3.5. Explanations on custodian and intermediary services:

None.

3.6. Summary Information on the Bank's Rating by the International Rating Institutions

Fitch Rating's October 2018	Notes
Long Term Issuer Default Rating	BB-
Short Term Issuer Default Rating	B
Local Currency Long Term Issuer Default Rating	BB
Local Currency Short Term Issuer Default Rating	B
Support Rating	3

4. Explanations and disclosures related to the income statement

4.1. Information on profit share income:

4.1.1. Information on profit share received from loans:

	Current Period	
	TL	FC
Profit share on loans	4,637,242	416,666
Short term loans	1,405,131	63,591
Medium and long term loans	3,204,900	353,075
Profit share on non-performing loans	27,211	-
Premiums received from resource utilization support fund	-	-
	Prior Period	
	TL	FC
Profit share on loans	3,117,811	210,848
Short term loans	806,921	18,862
Medium and long term loans	2,303,217	191,986
Profit share on non-performing loans	7,673	-
Premiums received from resource utilization support fund	-	-

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4.1.2. Information on profit share received from banks:

	Current Period	
	FC	YP
The Central Bank of the Republic of Turkey	-	-
Domestic Banks	-	-
Foreign Banks	21,392	146,934
Branches and head office abroad	-	746
Total	21,392	147,680

	Prior Period	
	FC	YP
The Central Bank of the Republic of Turkey	-	-
Domestic Banks	-	-
Foreign Banks	-	30,204
Branches and head office abroad	-	-
Total	-	30,204

4.1.3. Information on profit share income from securities portfolio:

The Bank received TL 388,818 of profit share income from rent certificates (sukuk) that are disclosed in detail in available for sale financial assets information (1 January-31 December 2017: TL 280,500).

4.1.4. Information on profit share income received from associates and subsidiaries:

	Current Period
Profit share income received from associates and subsidiaries	189

	Prior Period
Profit share income received from associates and subsidiaries	5

4.2. Information on profit share expenses:

4.2.1. Information on profit share expense given to funds borrowed:

	Current Period	
	TL	FC
Banks	9,620	33,946
The Central Bank of the Republic of Turkey	-	-
Domestic banks	5,128	10,449
Foreign banks	4,492	23,497
Branches and head office abroad	-	-
Other Institutions	249,419	525,717
Total	259,039	559,663

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	Prior Period	
	FC	YP
Banks	95,058	421,421
The Central Bank of the Republic of Turkey	-	-
Domestic banks	2,127	8,896
Foreign banks	4,394	38,565
Branches and head office abroad	-	-
Other Institutions	88,537	373,960
Total	95,058	421,421

4.2.2. Profit share expense given to associates and subsidiaries:

	Current Period
Profit share expenses given to associates and subsidiaries	472,655
	Prior Period
Profit share expenses given to associates and subsidiaries	359,164

4.2.3. Profit share expense paid to securities issued:

None (1 January-31 December 2017: None)

4.3. Information on dividend income:

	Current Period
Financial Assets at Fair Value Through Profit or Loss	-
Financial Assets at Fair Value Through Other Comprehensive Income	-
Other	1,273
Total	1,273
	Prior Period
Held for Trading Financial Assets	-
Fair Value Through Profit or Loss FV	-
Available for Sale Financial Assets	-
Other	-
Total	-

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4.4. Distribution of profit share on funds based on maturity of funds:

Current Period				Profit sharing accounts				
Account Name	Up to 1 month	Up to 3 month	Up to 6 month	Up to 9 month	Up to 1 year	Above 1 year	Accumulated profit sharing accounts	Total
TL								
Collected funds from banks through current and profit share accounts	-	-	-	-	-	-	-	-
Non-trading profit sharing								
Account of individuals	514,291	814,295	52,342	-	27,382	28,968	1,665	1,438,943
Public sector profit sharing account	652	2,303	-	-	2	-	-	2,957
Commercial sector profit sharing account	48,623	106,154	16,872	-	1,615	1,256	4	174,524
Other institutions profit sharing account	6,079	12,536	1,442	-	568	249	-	20,874
Total	569,645	935,288	70,656	-	29,567	30,473	1,669	1,637,298
FC								
Banks	58	1,361	-	-	-	-	-	1,419
Non-trading profit sharing account of individuals	77,496	138,578	26,884	-	13,454	8,576	23	265,011
Public sector profit sharing account	-	-	-	-	-	-	-	-
Commercial sector profit sharing account	9,697	43,151	3,587	-	4,473	91	4	61,003
Other institutions profit sharing account	1,932	4,848	398	-	4	-	-	7,182
Precious metal accounts	6,658	14,552	1,682	-	743	-	-	23,635
Total	95,841	202,490	32,551	-	18,674	8,667	27	358,250
Grand Total	665,486	1,137,778	103,207	-	48,241	39,140	1,696	1,995,548

Prior Period				Profit Sharing Accounts				
Account Name	Up to 1 month	Up to 3 month	Up to 6 month	Up to 9 month	Up to 1 year	Above 1 year	Accumulated profit sharing accounts	Total
TL								
Collected funds from banks through current and profit share accounts	-	-	-	-	-	-	-	-
Non-trading profit sharing								
Account of individuals	282,508	505,963	37,931	-	18,391	15,657	-	860,450
Public sector profit sharing account	79	2,610	631	-	-	-	-	3,320
Commercial sector profit sharing account	29,244	73,372	11,770	-	1,133	871	-	116,390
Other institutions profit sharing account	2,094	5,976	778	-	249	121	-	9,218
Total	313,925	587,921	51,110	-	19,773	16,649	-	989,378
FC								
Banks	730	144	-	-	-	-	-	874
Non-trading profit sharing account of individuals	40,294	69,375	16,005	-	7,964	3,996	-	137,634
Public sector profit sharing account	-	-	-	-	-	-	-	-
Commercial sector profit sharing account	4,758	21,396	1,378	-	151	123	-	27,806
Other institutions profit sharing account	1,669	1,784	454	-	23	97	-	4,027
Precious metal accounts	660	9,450	749	-	406	-	-	11,265
Total	48,111	102,149	18,586	-	8,544	4,216	-	181,606
Grand Total	362,036	690,070	69,696	-	28,317	20,865	-	1,170,984

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4.5. Information on trading income/loss (Net):

	Current Period
Trading income/loss (net)	453,415
Income	36,379,181
Gain on capital market transactions	21,918
Gain on derivative financial instruments	1,904,099
Foreign exchange gains	34,453,164
Losses (-)	(35,925,766)
Losses on capital market transactions	(11,677)
Losses on derivative financial instruments	(1,765,998)
Foreign exchange losses	(34,148,091)
	Prior Period
Trading income/loss (net)	246,884
Income	25,959,407
Gain on capital market transactions	9,812
Gain on derivative financial instruments	1,789,088
Foreign exchange gains	24,160,507
Losses (-)	(25,712,523)
Losses on capital market transactions	(2,852)
Losses on derivative financial instruments	(2,187,322)
Foreign exchange losses	(23,522,349)

4.6. Information on other operating income:

The details of other operating income are presented below. There are no unusual items in the other operating income which materially affect the income of the Bank.

	Current Period
Reversal of prior period provisions	473,730
Income from sale of assets ^(*)	38,166
Income from the real estate sales' gains by rent certificates	135,913
Lease income	2,587
Other Income	6,120
Total	656,516
	Prior Period
Reversal of prior period provisions	95,525
Income from sale of assets ^(**)	126,955
Income from the real estate sales' gains by rent certificates	-
Lease income	2,564
Other Income	5,173
Total	230,217

^(*) Income from the sale of shares of KT Portföy A.Ş.

^(**) Includes income from the liquidation of subsidiary that is Kuwait Turkish Participation Bank Dubai Ltd. amounting to TL 107,029.

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4.7. Provisions for loan losses and other receivables of the Bank:

	Current Period
Expected Credit Loss	1,949,975
12 month expected credit loss (Stage 1)	591,962
Significant increase in credit risk (Stage 2)	699,199
Non-performing loans (Stage 3)	658,814
Marketable Securities Impairment Expense	1,042
Financial Assets at Fair Value through Profit or Loss	979
Financial Assets at Fair Value Through Other Comprehensive Income	63
Impairment losses from Associates, Subsidiaries and Jointly Controlled Entities	-
Investments in Associates	-
Subsidiaries	-
Joint Ventures	-
Other ^(*)	26,343
Total	1,977,360
	Prior Period
Specific provisions for loans and other receivables	629,878
III. group loans and receivables	153,498
IV. group loans and receivables	132,447
V. group loans and receivables	343,933
Doubtful commissions, fees and other receivables	1,828
General provision expenses	101,046
Provision expenses from possible losses	-
Impairment provision of marketable securities	385
Financial Assets at fair value through profit and loss	385
Investment securities available for sale	-
Impairment provision of associates, subsidiaries, joint ventures and held to maturity investments	-
Associates	-
Subsidiaries	-
Joint ventures	-
Held to maturity investments	-
Other ^(*)	50,566
Total	783,703

^(*) According to the provision regulation, it consists of the provisions allocated from profit to be distributed to participation accounts.

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4.8. Information on other operating expenses:

	Current Period
Personnel expenses	787,200
Provision for retirement pay liability	16,090
Depreciation expenses of fixed assets	61,603
Impairment expenses of tangible assets	-
Depreciation expenses of intangible assets	56,303
Depreciation expenses of assets held for sale	-
Other operating expenses	364,315
Rent expenses	133,416
Maintenance expenses	42,690
Advertisement expenses	31,863
Communication expenses	39,908
Heating, electricity and water expenses	18,354
Cleaning expenses	5,737
Vehicle expenses	8,184
Stationery expenses	8,810
Other expenses	75,353
Losses on sales of assets	3,829
Deposit insurance fund expenses	102,283
Other	113,500
Total	1,505,123
	Prior Period
Personnel expenses	662,783
Provision for retirement pay liability	12,158
Depreciation expenses of fixed assets	54,372
Impairment expenses of tangible assets	-
Depreciation expenses of intangible assets	25,057
Depreciation expenses of assets held for sale	-
Other operating expenses	295,222
Rent expenses	110,815
Maintenance expenses	33,072
Advertisement expenses	27,275
Communication expenses	35,008
Heating, electricity and water expenses	13,498
Cleaning expenses	4,894
Vehicle expenses	5,678
Stationery expenses	5,754
Other expenses	59,228
Losses on sales of assets	109
Deposit insurance fund expenses	82,592
Other	87,387
Total	1,219,680

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4.9. Information on profit/loss from continued and discontinued operations before taxes:

Income before tax amounts to TL 1,126,057 increased by 32.64% as compared to the prior period (1 January - 31 December 2017 - TL 848,933). Income before tax includes TL 3,147,790 (1 January - 31 December 2017 - TL 2,314,213) net profit share income and TL 349,546 (1 January - 31 December 2017 - TL 241,002) net fees and commission income. Other operating expense amount is TL 701,833 (1 January - 31 December 2017 - TL 1,219,680).

4.10. Information on tax provision for continued and discontinued operations:

At current period, deferred tax income of the Bank is TL 197,896 (31 December 2017 - TL 22,696 -income) deferred tax income) and current tax provision expense is TL 454,141 (31 December 2017 - TL 197,638)

4.11. Information on net income/loss from continued and discontinued operations:

There is no income or loss for discontinued operation in net operating income after tax.

4.12. Information on net income/loss:

4.12.1. The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for a complete understanding of the Bank's performance for the period: As of 31 December 2018, net profit share income is TL 3,147,790 (1 January-31 December 2017 - TL 2,134,213), net fees and commission income is TL 349,546 (1 January-31 December 2017 - TL 241,002).

4.12.2. Effect of changes in accounting estimates on income statement for the current and, if any for subsequent periods:

None (1 January-31 December 2017- None).

4.12.3. Profit/Loss attributable to minority interest:

None (1 January-31 December 2017- None).

4.13. Details of sub accounts comprising at least 20% of other items in income statement, exceeding 10% of total income statement:

As of 31 December 2018, other fees and commissions received is TL 426,031 (1 January-31 December 2017 - TL 288,420), TL 123,244 of this amount is related with credit card fees and commissions (1 January-31 December 2017 - TL 69,834) and TL 91,787 of this amount is related with POS machine commissions (1 January-31 December 2017 - TL 56,034).

As of 31 December 2018, other fees and commissions given is TL 199,917 (1 January-31 December 2017 - TL 153,899), TL 107,446 (1 January-31 December 2017 - TL 65,391) of this amount is related with POS clearing commissions and installation expenses, TL 18,792 (1 January-31 December 2017 - TL 11,805) of this amount is related with fees and commissions paid for credit cards.

5. Statement of Changes in Shareholders' Equity

5.1. There are no disclosed dividend amounts subsequent to the balance sheet date, prior to the presentation of the financial statements. Decision on the dividend distribution will be made in the General Assembly. However, the General Assembly has not been held as of the date when the accompanying financial statements are finalized.

5.2. In the current year, the Bank made dividend payments amounting to TL 4,894 to members of Board of Directors. In the General Assembly meeting held in 29 March 2018 it has been decided that TL 34,189 would be transferred to legal reserves, TL 234,908 would be transferred to extraordinary reserve, TL 12,258 would be transferred to other reserves and TL 400,000 would be transferred to paid up capital.

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6. Explanations and notes related to cash flow statement

6.1. Information on cash and cash equivalents:

6.1.1. Components of cash and cash equivalents and accounting policy applied in their determination:

"Cash" is defined as cash in vault and foreign currency cash, cash in transit, checks purchased, unrestricted amount in the Central Bank and demand deposits in Banks. "Cash equivalents" is defined as money market placements, investments in securities and time deposits in banks with original maturity less than three months.

6.1.1.1 Cash and cash equivalents at the beginning of the period:

	Current Period
Cash	4,078,048
Cash in TL/foreign currency, others	606,825
Demand deposits at banks	3,471,223
Cash Equivalents	-
Interbank money markets	-
Time deposits at banks	-
Marketable securities	-
Total cash and cash equivalent	4,078,048
	Prior Period
Cash	5,595,655
Cash in TL/foreign currency, others	740,629
Demand deposits at banks	4,855,026
Cash Equivalents	-
Interbank money markets	-
Time deposits at banks	-
Marketable securities	-
Total cash and cash equivalent	5,595,655

6.1.1.2. Cash and cash equivalents at the end of the period:

	Current Period
Cash	6,680,124
Cash in TL/foreign currency, others	882,566
Demand deposits at banks (up to 3 months)	5,797,558
Cash equivalents	-
Interbank money markets	-
Time deposits at banks	-
Marketable securities	-
Total cash and cash equivalents	6,680,124
	Prior Period
Cash	4,078,048
Cash in TL/foreign currency, others	606,825
Demand deposits at banks (up to 3 months)	3,471,223
Cash equivalents	-
Interbank money markets	-
Time deposits at banks	-
Marketable securities	-
Total cash and cash equivalents	4,078,048

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6.2. Cash and cash equivalent items which are restricted for the usage of the Bank by legal or other limitations:

None (31 December 2017 – None).

6.3. Explanations on other items in the cash flow statement:

"Other items" amounting to TL (1,040,318) (1 January-31 December 2017: TL ((362,464)) in "Operating profit before changes in operating assets and liabilities" consists of fees and commissions paid and other operating expenses except for collection from non-performing loans and personnel expenses.

"Net increase/decrease in other liabilities" amounting to TL 906,746 (1 January-31 December 2017: TL 1,048,269) in "Changes in operating assets and liabilities" consists of changes in sundry creditors, other liabilities and taxes and other duties payables.

"Net increase/decrease in other assets" amounting to TL (2,882,112) (1 January-31 December 2017: TL (199,960)) in "Changes in operating assets and liabilities" consist of changes in prepaid rent expense and other asset.

6.4. Effects of the change in foreign currency rates on cash and cash equivalents:

Effect of the changes in foreign currency rates on cash and cash equivalents has been calculated approximately TL (66,621) as of 31 December 2018 (31 December 2017 – TL (15,217)). The effects of the change in foreign currency rates on cash and cash equivalents is calculated according to multiplying fx difference between balance sheet date and cash entered date and related cash amount.

7. Explanations and notes related to risk group of the Bank

7.1. Information on the volume of transactions relating to the Bank's risk group, outstanding loans and funds collected and income and expenses for the period:

Current Period:

Risk Group of the Bank ^(*)	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at beginning of period	19	1,253	1,030	786	150,924	917
Balance at end of period	121,040	19,092	1,034	398	204,988	520
Profit share and commission income	71	118	73	11	18,440	4

Prior Period:

Risk Group of the Bank ^(*)	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at beginning of period	14	883	998	16,818	135,364	20,290
Balance at end of period	19	1,253	1,030	786	150,924	917
Profit share and commission income	-	5	83	1	9,719	1

^(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

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7.1.2. Information on current and profit sharing accounts of the Bank's risk group:

Risk group of the Bank ^(*)	Investment in associates, subsidiaries and joint ventures (business partnerships)	Direct and indirect shareholders of the bank	Other real or legal persons included in the risk group
	Current Period	Current Period	Current Period
Current and profit sharing accounts			
Balance at the beginning of period	33,887	60,187	417,813
Balance at the end of period	62,800	35,032	255,239
Profit share expense	2,087	3,682	30,709

Risk group of the Bank ^(*)	Investment in associates, subsidiaries and joint ventures (business partnerships)	Direct and indirect shareholders of the bank	Other real or legal persons included in the risk group
	Prior Period	Prior Period	Prior Period
Current and profit sharing accounts			
Balance at the beginning of period	113,140	58,441	113,915
Balance at the end of period	33,887	60,187	417,813
Profit share expense	2,541	4,317	13,068

^(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

7.1.3. Forward and option agreements and other similar agreements with the risk group of the Bank:

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Transactions at Fair Value through Profit/Loss						
Balance at the beginning of period	81,031	-	-	-	-	-
Balance at the end of period	517,747	81,031	574,666	-	-	-
Total Profit/Loss	(1,362)	1,784	116	-	-	-
Hedging Transactions						
Balance at the beginning of period	-	-	-	-	-	-
Balance at the end of period	-	-	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

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7.1.4. Information on loans received from the Bank's risk group:

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships) Current Period	Direct and indirect shareholders of the Bank Current Period	Other real or legal persons included in the risk group Current Period
Borrowings			
Balance at beginning of period	7,063,526	2,175,759	-
Balance at end of period	5,646,443	802,108	-
Profit share expense	470,568	84,426	-

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships) Current Period	Direct and indirect shareholders of the Bank Current Period	Other real or legal persons included in the risk group Current Period
Borrowings			
Balance at beginning of period	6,031,523	2,954,769	-
Balance at end of period	7,063,526	2,175,759	-
Profit share expense	356,623	48,678	-

7.2. Information on remunerations provided to top management:

As of 1 January - 31 December 2018, the Bank has paid TL 29,823 to top management (1 January - 31 December 2017- TL 25,916).

8. Domestic, foreign and off-shore branches or equity investments, and foreign representative offices

8.1. Domestic and foreign branches and representative offices:

	Number of Branches	Number of Employees			
Domestic branches ^(*)	414	5,868			
			Country		
Foreign representative offices				Total Assets (Thousands, TL)	Legal Capacity (USD)
Foreign bank	4	87	Almanya	2,246,657	96,266,115
Off-shore branches	1	3	Bahreyn ^(**)	4,231,098	-
Foreign branches					

^(*) The personnel working at Headquarters, Operation Center and Region quarters are not included in the domestic branches personnel number.

^(**) Bahrain Branch is controlled by the Central Bank of Bahrain and the total of Assets is 4,231,098 Turkish lira as of 31 December 2018.

8.2. Opening or closing of domestic and foreign branches and representative offices and significant changes in organizational structure

In 2018, 17 new domestic branches (2017-14 branches) were opened and 1 domestic branch was closed (2017-1 branch).

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NOTES AND DISCLOSURES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

9. Significant Events and Matters Arising Subsequent to Balance Sheet Date

The Board of Directors of the Bank has decided to propose a capital increase from the internal sources amounting to TL 500,000 for the the approval of the ordinary general assembly on the meeting dated 29 January 2019.

In January 2019, The Bank has exported three different sukuks via its subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. with 105 days maturity, TL 470,000 Nominal, 21.50% borrowing rate in 15 January 2019, with 130 days maturity, TL 65,000 nominal, 21.70% borrowing rate in 25 January 2019, with 101 days maturity, TL 300,000 nominal, 21.00% borrowing rate, in 29 January 2019.

SECTION SIX OTHER EXPLANATIONS AND DISCLOSURES

1. Other matters which must be explained in terms of explicitly, interpretability and understandability of the balance sheet:

None.

SECTION SEVEN INDEPENDENT AUDITORS' REPORT

1. Explanations on the auditors' report:

The unconsolidated financial statements have been reviewed by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of Deloitte Touche Tohmatsu Limited) and the independent auditors' report dated 26 February 2018 is presented preceding the financial statements.

2. Notes and disclosures prepared by independent auditors:

None.

KUVEYT TRK KATILIM BANKASI A..

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED
1 JANUARY-31 DECEMBER 2018 WITH INDEPENDENT AUDITOR’S REPORT

(CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS,
RELATED DISCLOSURES AND FOOTNOTES ORIGINALLY ISSUED IN TURKISH)



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(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

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

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. ("the Bank") and its consolidated subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of income, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and 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 "the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Regulations" including the regulation on "The Procedures and Principles Regarding Banks' Accounting Practices and Maintaining Documents" published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Financial Reporting Standards (TFRS) for the matters not legislated by the aforementioned regulations.

2) Basis for Opinion

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our 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 *Code of Ethics for Independent Auditors* ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
<p>Adoption of TFRS 9 Financial Instruments Standard for the first time and explanations on the the impairment of financial assets</p> <p>As of 1 January 2018, the Group has adopted "TFRS 9: Financial Instruments" which was published in the Official Gazette dated 19 January 2017 and numbered 29953 by the Public Oversight Accounting and Auditing Standards Authority, to replace "TAS 39 Financial Instruments: Recognition and Measurement" .</p> <p>TFRS 9 Financial Instruments Standard consists of three phases: Phase 1 – Classification and measurement of financial assets and financial liabilities; Phase 2 – Expected credit losses Phase 3 – Hedge accounting</p> <p>TFRS 9 is an accounting standard with a new and complex design and implementation that requires considerable judgment and interpretation in practice.</p> <p>The classification of financial instruments is based on the business model used by the Group and the contractual cash flows with adoption of TFRS 9.</p> <p>The expected loan losses are calculated by using historic loss experience, current conditions and prospective macroeconomic models. The Group has developed new and complex models that require data from more than one system to calculate the TFRS 9 expected loss provision and determine a significant increase in credit risk.</p> <p>The reason we focus on this area during our audit is; the significance of expected credit loss provision and loans within the balance sheet, classification of these loans within the framework of TFRS 9 and to determine the significant increase in credit default and credit risk accurately and timely and to determine the expected loss provision accurately.</p> <p>The reason of being this area is selected as a key audit matter ist that the classification, measurement and calculation of expected credit losses are considered as the key control subject due to the inclusion of important estimation, assumption and management judgments as mentioned above and also because of the complex structure of the model.</p> <p>The impact of the first application of TFRS 9 and relevant disclosures are presented in Section 3 Part 1.2 in the accompanying unconsolidated financial statements.</p> <p>The Group has elected to continue to apply the hedge accounting requirements of TAS 39.</p>	<p>As part of our audit work, the following procedures were performed:</p> <p>The Bank's TFRS 9 policy of the classification of financial assets and financial liabilities has been read and compared with the TFRS 9.</p> <p>We have examined the Bank's classification and measurement models of the financial instruments and compared them with the requirements of TFRS 9 standard.</p> <p>We have tested the appropriateness of criteria in order to identify the financial assests having solely payments of principal and interest and checking the compliance to the Bank's Business model.</p> <p>The appropriateness of the opening balance adjustments and the disclosures presented were checked.</p> <p>Testing the appropriateness of new or re-structured processes which are used to calculate expected credit losses by involving our Information Technology and Process audit specialists.</p> <p>The processes, systems and controls created or reorganized to calculate expected credit losses are reviewed and tested by our Information Systems and Processes auditors.</p> <p>Within the framework of TFRS 9, we have carried out review procedures for loans selected on the basis of samples to determine whether the classification by credit risk is reasonable, whether it is impaired, and whether the provision for impairment of the receivable is established in a timely manner and in accordance with the provisions of the new legislation.</p> <p>We have performed loan review on a selected sample of loans with the objective to identify whether the classification of loans is performed appropriately in line with TFRS 9 staging rules, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the TFRS 9 framework.</p> <p>Testing the appropriateness of the methods used in calculation of expected credit loss, significant increase in credit risk, default amount and significant assumptions on macroeconomic variables together with our risk modelling experts. We have tested model calculations through sampling together with our modelling specialists.</p> <p>In the framework of the discussions with the Bank's management, we have evaluated whether the underlying assumptions and other judgments that constitute the basis for the impairment calculations are reasonable.</p> <p>We have reviewed disclosures made within the TFRS 9 framework in the financial statements of the Bank with respect to loan and receivables and related impairment provision.</p>



4) 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 the BRSA Accounting and Reporting Regulations, 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.

5) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

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 the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and SIA 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 the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and SIA, 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 period 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.

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Bank's set of accounts for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Bank's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Yaman Polat.

Additional Paragraph for English Translation

The effect of the differences between the accounting principles summarized in Section 3 and the accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified and reflected in the accompanying consolidated financial statements. The accounting principles used in the preparation of the accompanying consolidated financial statements differ materially from IFRS. Accordingly, the accompanying consolidated financial statements are not intended to present the Group's consolidated financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

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



Yaman Polat
Partner

İstanbul, 7 March 2019

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**THE CONSOLIDATED FINANCIAL REPORT OF
KUVEYT TÜRK KATILIM BANKASI A.Ş.
AS OF 31 DECEMBER 2018**

Address of the head office : Büyükdere Cad. No:129/1 34394 Esentepe / İSTANBUL
Phone number & Facsimile number : 0212 354 11 11 - 0212 354 12 12
Web page : www.kuveytturk.com.tr
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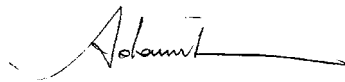
The consolidated financial report for the year ended designed in line with the Banking Regulation and Supervision Agency's official communication on "Financial Statements to be Publicly Announced and the Related Policies and Disclosures" consists of the sections listed below:

- General information about the parent bank
- Consolidated financial statements of the parent bank
- Explanations on accounting policies
- Information on financial structure of the group which is under consolidation and risk management of the bank
- Footnotes and explanations on consolidated financial statements
- Other explanations
- Independent auditors' report

The subsidiaries, associates and jointly controlled entities, financial statements of which are consolidated within the framework of the reporting package are as follows:

Subsidiaries	Associates	Entities Under Joint Control
1. KT Sukuk Varlık Kiralama A.Ş.		Katılım Emeklilik ve Hayat A.Ş.
2. KT Kira Sertifikaları Varlık Kiralama A.Ş.		KT Portföy Yönetimi A.Ş.
3. Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.		
4. KT Bank AG.		
5. KT Sukuk Company Limited		

The accompanying consolidated financial statements and notes have been prepared based on the accounting books of the Bank in accordance with the Regulation on Accounting Applications for Banks and the Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and, unless otherwise indicated, have been prepared in thousands of Turkish Lira. Related appendices and interpretations on these are independently audited and presented hereby.



Adnan ERTEM
Vice Chairman of BOD
And Head of the Audit Committee



Ahmad S A A AL KHARJI
Member of the Audit Committee



Mohamad AL-MIDANI
Member of the Audit
Committee



Ufuk UYAN
General Manager



Ahmet KARACA
Chief Financial Officer
Manager



İsmail Hakkı YEŞİLYURT
External Reporting

Contact information of the personnel in charge of the addressing of questions about this financial report:
Name-Surname: İsmail Hakkı YEŞİLYURT / External Reporting Manager
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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION ONE GENERAL INFORMATION

I. History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status

Kuveyt Türk Katılım Bankası A.Ş. ("The Bank" or "The Parent Bank") was incorporated with the approval of the Central Bank of the Republic of Turkey (CBRT) on February 28, 1989 and commenced its operations on 31 March 1989, with the name of Kuveyt Türk Evkaf Finans Kurumu A.Ş. to comply with the Banking Act 5411, the title of the Bank has been changed to Kuveyt Türk Katılım Bankası A.Ş. with a change in the Articles of Association which was approved in the annual general meeting dated 26 April 2006. Main field of operation is, in addition to the Bank's equity, to collect funds from domestic and foreign customers through "Current Accounts" and "Profit/ Loss Sharing Accounts" and allocate such funds to the economy, to perform all kinds of financing activities in accordance with the regulations, to encourage the investments of all individuals and legal entities operating in agricultural, industrial, trading and service industries, participating into the operations of these entities or individuals and to form joint business partnerships and to perform all these activities in a non-interest environment.

The Bank's 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, acting as investment intermediary, providing consulting services, performing asset management activities, performing investment activities and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.

The Parent Bank and consolidated financial subsidiaries are named as "Group" together.

II. Shareholding Structure, Shareholders Jointly or Individually Having Direct or Indirect, Control over the Management and Supervision of the Bank and the Disclosures on Any Related Changes in the Current Period, if any and information about the Group that the Bank belongs to

As of 31 December 2018, 62.24% of the Parent Bank's shares are owned by Kuwait Finance House located in Kuwait, 18.72% by Vakıflar Genel Müdürlüğü Mazbut Vakıfları, 9.00% by The Public Institution For Social Security in Kuwait and 9.00% by Islamic Development Bank whereas the remaining 1.04% of the shares are owned by other real persons and legal entities.

III. Explanations on the Titles of Chairman and Members of the Board of Directors, Members of the Audit Committee, General Managers and Assistant General Managers and Their Shareholdings in the Bank

Name	Title	Date of the assignment	Date of assignment to the audit committee	Educational degree	Ownership Percentage
Hamad Abdulmohsen AL MARZOUQ	Head of the BOD	25/06/2014		Master	-
Dr. Adnan ERTEM	Vice Chairman of the BOD and Head of the Audit Committee	10/10/2002	19/10/2010	Doctorate	-
Nadir ALPASLAN	Member of BOD	15/04/2011		Bachelor	-
Khaled Nasser Abdulaziz AL FOUZAN	Member of BOD	02/08/2006		Bachelor	-
Fawaz KH E AL SALEH	Member of BOD	20/10/2006		Bachelor	%0.0105
Mazin S.A.S AL NAHEDH	Member of BOD	29/09/2015		Bachelor	-
Mohamad AL-MIDANI	Member of BOD and Audit Committee	05/05/2015	15/05/2015	Master	-
Ahmed S. AL KHARJI	Member of BOD and Audit Committee	26/03/2014	24/09/2014	Master	-
Ufuk UYAN	Member of BOD and General Manager	10/05/1999		Master	%0.0566
Ahmet KARACA	Assistant General Manager and Chief Financial Officer	12/07/2006		Master	%0.0002
Ahmet Süleyman KARAKAYA	Assistant General Manager, Corporate and Commercial Banking	14/01/2003		Bachelor	-
Bilal SAYIN	Assistant General Manager, Lending	20/08/2003		Bachelor	%0.0035
İrfan YILMAZ	Assistant General Manager, Banking Services	27/10/2005		Bachelor	%0.0156
Dr. Ruşen Ahmet ALBAYRAK	Assistant General Manager, Treasury and International Banking	05/05/2005		Doctorate	%0.0091
Nurettin KOLAÇ	Assistant General Manager, Legal and Risk Follow Up	20/04/2010		Bachelor	%0.0007
Aslan DEMİR	Assistant General Manager, Strategy	08/10/2012		Bachelor	%0.0047
Mehmet ORAL	Assistant General Manager, Retail Banking	01/10/2012		Bachelor	%0.0029
Abdurrahman DELİPOYRAZ	Assistant General Manager, SME Banking	09/01/2015		Bachelor	%0.0028

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Chairman and members of the Board of Directors, members of auditing committee, general manager and assistant general managers own 0.11% of the Bank's share capital (31 December 2017 – 0.11%).

IV. Information on qualified shareholders:

Name / Commercial Name	Share amount (Nominal)	Shareholding percentage	Paid shares (Nominal)	Unpaid shares
Kuwait Finance House	2,178,444	%62.24	2,178,444	-
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	655,174	%18.72	655,174	-
Total	2,833,618	%80.96	2,833,618	-

As of 31 December 2018, the shares of parent shareholder of the Parent Bank, Kuwait Finance House ("KFH") are 51.95% publicly traded; 24.08% of KFH belongs to Kuwait Investment Authority and 10.48% belongs to Public Authority for Minors Affairs.

V. Summary information of the Bank's services and field of operations

The Parent Bank's field of operations includes corporate banking, international banking services, retail banking and credit card services. The Parent 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 lending such funds to its customers. As of 31 December 2018, the Group is operating through 419 domestic branches (31 December 2017 – 403) with 5,981 employees (31 December 2017 – 5,846). Summary of some of the Parent Bank's operations described in the Articles of Association are as follows;

- To collect funds through Current Accounts and Profit/Loss Sharing Accounts and special fund pools in line with the regulations,
- To allocate funds to the economy and provide all kinds of cash, non-cash loans within the principles of non-interest banking,
- To offer financial and operational leasing,
- To handle all kinds of deposits and payments, including travelers' checks, credit cards and other payment instruments, provide member business services (POS), consulting, advisory, and safe deposit box services,
- To purchase financial instruments on money and capital markets in cash or installments, sell and mediate the sale and trade on the stock exchange in accordance with legislation and principles of non-interest banking,
- To purchase, acquire and construct any kind of real estate and if necessary lease or transfer ownership to other persons,
- To act as a representative, deputy or agent for corporations and enterprises (including insurance companies),
- To provide socially responsible aid for the benefit of the Bank in line with the legislations.

The Parent Bank's activities are not limited to the list above. If another transaction is decided to be beneficial to the Parent Bank, the transaction must be recommended by the Board of Directors, approved by the General Assembly and authorized by relevant legal authorities after whom it also needs to be approved by the Ministry of Customs and Trade since it constitutes an amendment of the Article of Association. Decisions that have been approved through all these channels will be included to the Article of Association.

VI. Current or likely actual legal barriers to immediate transfer of equity or repayment of debts between Parent Bank and its subsidiaries:

None.

SECTION TWO

THE CONSOLIDATED FINANCIAL STATEMENTS

- I. Consolidated Balance Sheet (Statement of Financial Position)
- II. Consolidated Statement of Off-Balance Sheet Commitments
- III. Consolidated Income Statement (Statement of Income / Loss)
- IV. Consolidated Statement of Profit and Loss Accounted for Under Equity (Statement of Other Comprehensive Income and Loss)
- V. Consolidated Statement of Changes in Shareholders' Equity
- VI. Consolidated Statement of Cash Flows
- VII. Consolidated Statement of Profit Distribution

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1. CONSOLIDATED BALANCE SHEET-ASSETS (STATEMENT OF FINANCIAL POSITION)

				Audited Current Period 31.12.2018
	Note	TL	FC	Total
I. FINANCIAL ASSETS (Net)		3,344,131	20,419,396	23,763,527
1.1 Cash And Cash Equivalents		1,195,967	16,312,881	17,508,848
1.1.1 Cash And Balances With Central Bank	(5.1.1.)	1,183,109	9,428,812	10,611,921
1.1.2 Banks	(5.1.3.)	12,858	6,884,069	6,896,927
1.1.3 Receivables From Money Markets		-	-	-
1.2 Financial Assets At Fair Value Through Profit Or Loss		27,913	75,181	103,094
1.2.1 Government Debt Securities		18,327	11,770	30,097
1.2.2 Equity Instruments		-	-	-
1.2.3 Other Financial Assets		9,586	63,411	72,997
1.3 Financial Assets At Fair Value Through Other Comprehensive Income	(5.1.4.)	2,136,687	4,067,733	6,204,420
1.3.1 Government Debt Securities		2,065,421	3,804,519	5,869,940
1.3.2 Equity Instruments		10,502	17,046	27,548
1.3.3 Other Financial Assets		60,764	246,168	306,932
1.4 Financial Assets Measured At Amortised Cost	(5.1.6.)	-	37,156	37,156
1.4.1 Government Debt Securities		-	37,156	37,156
1.4.2 Other Financial Assets		-	-	-
1.5 Derivative Financial Assets	(5.1.2.)	29,483	12,528	42,011
1.5.1 Derivative Financial Assets At Fair Value Through Profit Or Loss		29,483	12,528	42,011
1.5.2 Derivative Financial Assets At Fair Value Through Other Comprehensive Income		-	-	-
1.6 Non-Performing Financial Assets		-	-	-
1.7 Expected Loss Provision (-)		45,919	86,083	132,002
II. LOANS (Net)	(5.1.5.)	31,038,014	15,930,129	46,968,143
2.1 Loans		30,078,505	15,194,706	45,273,211
2.1.1 Loans Measured At Amortised Cost		30,077,773	15,154,609	45,232,382
2.1.2 Loans At Fair Value Through Profit Or Loss		732	40,097	40,829
2.1.3 Loans At Fair Value Through Other Comprehensive Income		-	-	-
2.2 Lease Receivable	(5.1.10.)	1,439,955	1,010,744	2,450,699
2.2.1 Finance Lease Receivables		1,690,854	1,191,038	2,881,892
2.2.2 Operational Lease Receivables		-	-	-
2.2.3 Unearned Income (-)		250,899	180,294	431,193
2.3 Factoring Receivables		-	-	-
2.3.1 Measured At Amortised Cost		-	-	-
2.3.2 Fair Value Through Profit Or Loss		-	-	-
2.3.3 Fair Value Through Other Comprehensive Income		-	-	-
2.4 Non-Performing Loans		1,159,974	25,866	1,185,840
2.5 Expected Credit Losses (-)		1,640,420	301,187	1,941,607
2.5.1 12-Month Expected Credit Losses (Stage I)		297,335	146,856	444,191
2.5.2 Significant Increase In Credit Risk (Stage II)		504,576	150,913	655,489
2.5.3 Credit-Impaired Losses (Stage III / Special Provision)		838,509	3,418	841,927
III. PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS(NET)	(5.1.16.)	270,382	-	270,382
3.1 Held For Sale		270,382	-	270,382
3.2 Related to Discontinued Operations		-	-	-
IV. EQUITY INVESTMENTS		52,200	-	52,200
4.1 Investments in Associates (Net)	(5.1.7.)	-	-	-
4.1.1 Associates Valued Based on Equity Method		-	-	-
4.1.2 Unconsolidated Associates		-	-	-
4.2 Subsidiaries (Net)	(5.1.8.)	23,680	-	23,680
4.2.1 Unconsolidated Financial Subsidiaries		-	-	-
4.2.2 Unconsolidated Non-Financial Subsidiaries		23,680	-	23,680
4.3 Joint Ventures (Net)	(5.1.9.)	28,520	-	28,520
4.3.1 Joint Ventures Valued Based on Equity Method		28,520	-	28,520
4.3.2 Unconsolidated Joint Ventures		-	-	-
V. TANGIBLE ASSETS (Net)	(5.1.12.)	449,287	7,900	457,187
VI. INTANGIBLE ASSETS (Net)	(5.1.13.)	136,932	63,833	200,765
6.1 Goodwill		-	-	-
6.2 Other		136,932	63,833	200,765
VII. INVESTMENT PROPERTIES (Net)	(5.1.14.)	29,671	-	29,671
VIII. CURRENT TAX ASSETS		-	-	-
IX. DEFERRED TAX ASSETS	(5.1.15.)	346,640	34,043	380,683
X. OTHER ASSETS	(5.1.17.)	904,064	1,986,364	2,890,428
TOTAL ASSETS		36,571,321	38,441,665	75,012,986

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

				Audited Prior Period 31.12.2017
	Note	TL	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	(5.1.1.)	625,022	8,399,697	9,024,719
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)		21,768	66,466	88,234
2.1 Held for trading financial assets		21,768	66,466	88,234
2.1.1 Public sector debt securities		7,600	28,719	36,319
2.1.2 Equity securities		-	-	-
2.1.3 Derivative financial assets held for trading		14,168	12,531	26,699
2.1.4 Other marketable securities		-	25,216	25,216
2.2 Financial assets at fair value through profit and loss		-	-	-
2.2.1 Public sector debt securities		-	-	-
2.2.2 Equity securities		-	-	-
2.2.3 Loans		-	-	-
2.2.4 Other marketable securities		-	-	-
III. BANKS	(5.1.3.)	8,619	3,563,455	3,572,074
IV. MONEY MARKET PLACEMENTS		-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(5.1.4.)	2,064,954	2,358,776	4,423,730
5.1 Equity securities		10,325	38,172	48,497
5.2 Public sector debt securities		2,048,171	2,055,277	4,103,448
5.3 Other marketable securities		6,458	265,327	271,785
VI. LOANS AND RECEIVABLES	(5.1.5.)	29,860,983	6,744,517	36,605,500
6.1 Loans and receivables		29,813,800	6,744,408	36,558,208
6.1.1 Loans to risk group of the Bank		84,022	67,951	151,973
6.1.2 Public sector debt securities		-	-	-
6.1.3 Other		29,729,778	6,676,457	36,406,235
6.2 Non-performing loans		714,130	930	715,060
6.3 Specific provisions (-)		666,947	821	667,768
VII. HELD TO MATURITY INVESTMENTS (Net)	(5.1.4.)	-	-	-
VIII. INVESTMENTS IN ASSOCIATES (Net)	(5.1.7.)	-	-	-
8.1 Accounted for under equity method		-	-	-
8.2 Unconsolidated associates		-	-	-
8.2.1 Financial associates		-	-	-
8.2.2 Non-financial associates		-	-	-
IX. INVESTMENTS IN SUBSIDIARIES (Net)	(5.1.8.)	23,680	-	23,680
9.1 Unconsolidated financial subsidiaries		-	-	-
9.2 Unconsolidated non-financial subsidiaries		23,680	-	23,680
X. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)	(5.1.9.)	19,405	-	19,405
10.1 Accounted for under equity method		19,405	-	19,405
10.2 Unconsolidated		-	-	-
10.2.1 Financial subsidiaries		-	-	-
10.2.2 Non-financial subsidiaries		-	-	-
XI. FINANCE LEASE RECEIVABLES	(5.1.10.)	1,437,354	643,376	2,080,730
11.1 Finance lease receivables		1,624,695	771,045	2,395,740
11.2 Operating lease receivables		-	-	-
11.3 Other		-	-	-
11.4 Unearned income (-)		187,341	127,669	315,010
XII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(5.1.11.)	-	-	-
12.1 Fair value hedge		-	-	-
12.2 Cash flow hedge		-	-	-
12.3 Hedge of net investment risks in foreign operations		-	-	-
XIII. TANGIBLE ASSETS (Net)	(5.1.12.)	409,644	6,405	416,049
XIV. INTANGIBLE ASSETS (Net)	(5.1.13.)	119,146	49,819	168,965
14.1 Goodwill		-	-	-
14.2 Other		119,146	49,819	168,965
XV. INVESTMENT PROPERTIES (Net)	(5.1.14.)	25,419	-	25,419
XVI. TAX ASSET	(5.1.15.)	138,710	-	138,710
16.1 Current tax asset		-	-	-
16.2 Deferred tax asset		138,710	-	138,710
XVII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	(5.1.16.)	117,006	-	117,006
17.1 Held for sale		117,006	-	117,006
17.2 Discontinued operations		-	-	-
XVIII. OTHER ASSETS	(5.1.17.)	278,349	582,132	860,481
TOTAL ASSETS		35,150,059	22,414,643	57,564,702

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The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

CONSOLIDATED BALANCE SHEET – LIABILITIES AND EQUITY (STATEMENT OF FINANCIAL POSITION)

				Audited Current Period 31.12.2018
	Note	TL	FC	Total
I. FUNDS COLLECTED	(5.2.1.)	22,516,520	32,713,498	55,230,018
II. FUNDS BORROWED	(5.2.3.)	93,394	1,901,902	1,995,296
III. MONEY MARKETS		188,003	-	188,003
IV. SECURITIES ISSUED (Net)		1,634,934	6,157,936	7,792,870
V. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	-
VI. DERIVATIVE FINANCIAL LIABILITIES	(5.2.2.)	21,045	149,118	170,163
6.1 Derivative Financial Liabilities At Fair Value Through Profit Or Loss		21,045	149,118	170,163
6.2 Derivative Financial Liabilities At Fair Value Through Other Comprehensive Income		-	-	-
VII. LEASE PAYABLES	(5.2.6.)	-	-	-
7.1 Finance Lease Payables		-	-	-
7.2 Operating Lease Payables		-	-	-
7.3 Other		-	-	-
7.4 Deferred Finance Lease Expenses (-)		-	-	-
VIII. PROVISIONS	(5.2.8.)	615,727	184,795	800,522
8.1 Restructuring Provision		-	-	-
8.2 Reserves For Employee Benefits		228,540	538	229,078
8.3 Insurance For Technical Provision (Net)		-	-	-
8.4 Other Provisions		387,187	184,257	571,444
IX. CURRENT TAX LIABILITIES	(5.2.9.)	175,716	1,936	177,652
X. DEFERRED TAX LIABILITIES		-	-	-
XI. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(5.2.10.)	-	-	-
11.1 Held For Sale		-	-	-
11.2 Related To Discontinued Operations		-	-	-
XII. SUBORDINATED DEBT INSTRUMENTS	(5.2.11.)	-	1,901,210	1,901,210
12.1 Loans		-	-	-
12.2 Other Debt Instruments		-	1,901,210	1,901,210
XIII. OTHER LIABILITIES	(5.2.5.)	1,183,827	153,891	1,337,718
XIV. SHAREHOLDERS' EQUITY	(5.2.12.)	5,582,198	(162,664)	5,419,534
14.1 Paid-In Capital		3,497,322	-	3,497,322
14.2 Capital Reserves		24,208	-	24,208
14.2.1 Equity Share Premiums		24,208	-	24,208
14.2.2 Share Cancellation Profits		-	-	-
14.2.3 Other Capital Reserves		-	-	-
14.3 Other Accumulated Comprehensive Income or Loss That Will Not Be Reclassified Through Profit Or Loss		(13,296)	-	(13,296)
14.4 Other Accumulated Comprehensive Income or Loss That Will Be Reclassified Through Profit Or Loss		18,702	(51,432)	(32,730)
14.5 Profit Reserves		1,110,535	-	1,110,535
14.5.1 Legal Reserves		187,583	-	187,583
14.5.2 Statutory Reserves		-	-	-
14.5.3 Extraordinary Reserves		923,536	-	923,536
14.5.4 Other Profit Reserves		(584)	-	(584)
14.6 Profit Or Loss		919,615	(111,232)	808,383
14.6.1 Prior Years' Profits Or Losses		106,742	(107,902)	(1,160)
14.6.2 Current Period Net Profit Or Loss		812,873	(3,330)	809,543
14.7 Minority Shares	(5.2.13.)	25,112	-	25,112
TOTAL LIABILITIES AND EQUITY		32,011,364	43,001,622	75,012,986

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

				Audited Prior Period 31.12.2017
	Note	TL	FC	Total
I. FUND COLLECTED	(5.2.1)	19,951,556	20,303,407	40,254,963
1.1 Funds from risk group of the Bank		389,739	118,271	508,010
1.2 Other		19,561,817	20,185,136	39,746,953
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(5.2.2)	21,446	59,251	80,697
III. FUNDS BORROWED	(5.2.3)	110,116	3,277,011	3,387,127
IV. MONEY MARKET BALANCES		750,524	-	750,524
V. MARKETABLE SECURITIES ISSUED (Net)		1,104,618	4,547,223	5,651,841
VI. SUNDRY CREDITORS	(5.2.5)	170,672	29,333	200,005
VII. OTHER LIABILITIES	(5.2.4)	329,741	16,177	345,918
VIII. FINANCE LEASE PAYABLES	(5.2.6)	-	-	-
8.1 Finance lease payables		-	-	-
8.2 Operating lease payables		-	-	-
8.3 Other		-	-	-
8.4 Deferred finance lease expenses (-)		-	-	-
IX. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	(5.2.7)	-	70,795	70,795
9.1 Fair value hedge		-	-	-
9.2 Cash flow hedge		-	70,795	70,795
9.3 Hedge of net investment in foreign operations		-	-	-
X. PROVISIONS	(5.2.8)	642,750	152,670	795,420
10.1 General loan loss provisions		312,384	95,570	407,954
10.2 Restructuring provisions		-	-	-
10.3 Reserve for employee benefits		185,060	334	185,394
10.4 Insurance technical reserves (net)		-	-	-
10.5 Other provisions		145,306	56,766	202,072
XI. TAX LIABILITY	(5.2.9)	56,259	-	56,259
11.1 Current tax liability		56,259	-	56,259
11.2 Deferred tax liability		-	-	-
XII. PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	(5.2.10)	-	-	-
12.1 Held for sale		-	-	-
12.2 Discontinued operations		-	-	-
XIII. SUBORDINATED LOANS	(5.2.11)	-	1,360,338	1,360,338
XIV. SHAREHOLDERS' EQUITY	(5.2.12)	4,706,108	(95,293)	4,610,815
14.1 Paid-in capital		3,097,322	-	3,097,322
14.2 Capital reserves		(86,697)	12,609	(74,088)
14.2.1 Share premium		24,208	-	24,208
14.2.2 Share cancellation profits		-	-	-
14.2.3 Marketable securities revaluation reserve		(23,192)	12,609	(10,583)
14.2.4 Tangible assets revaluation reserve		-	-	-
14.2.5 Intangible assets revaluation reserve		-	-	-
14.2.6 Investment property revaluation reserve		-	-	-
14.2.7 Bonus shares obtained from associates, subsidiaries and jointly controlled entities		-	-	-
14.2.8 Hedging funds (effective portion)		(60,766)	-	(60,766)
14.2.9 Value increase on assets held for sale		-	-	-
14.2.10 Other capital reserves		(26,947)	-	(26,947)
14.3 Profit reserves		927,236	-	927,236
14.3.1 Legal reserves		151,688	-	151,688
14.3.2 Status reserves		-	-	-
14.3.3 Extraordinary reserves		688,628	-	688,628
14.3.4 Other profit reserves		86,920	-	86,920
14.4 Profit or loss		745,193	(107,902)	637,291
14.4.1 Prior period income/(losses)		86,367	(77,931)	8,436
14.4.2 Current period income/(losses)		658,826	(29,971)	628,855
14.5 Minority shares	(5.2.13)	23,054	-	23,054
TOTAL LIABILITIES AND EQUITY		27,843,790	29,720,912	57,564,702

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

STATEMENT OF CONSOLIDATED OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

2. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES

				Audited Current Period 31.12.2018
	Note	TL	FC	Total
A. COMMITMENTS AND CONTINGENCIES (I+II+III)		57,546,517	29,212,634	86,759,151
I. GUARANTEES AND WARRANTIES	(5.3.1.)	6,416,633	5,459,447	11,876,080
1.1 Letters Of Guarantee		6,206,886	4,184,393	10,391,279
1.1.1 Guarantees Subject To State Tender Law		217,252	174,971	392,223
1.1.2 Guarantees Given For Foreign Trade Operations		371,535	167,020	538,555
1.1.3 Other Letters Of Guarantee		5,618,099	3,842,402	9,460,501
1.2 Bank Loans		17,516	56,582	74,098
1.2.1 Import Letter Of Acceptance		17,516	56,582	74,098
1.2.2 Other Bank Acceptances		-	-	-
1.3 Letters Of Credit		11,512	1,068,364	1,079,876
1.3.1 Documentary Letters Of Credit		367	215,062	215,429
1.3.2 Other Letters Of Credit		11,145	853,302	864,447
1.4 Guaranteed Refinancing		-	1,791	1,791
1.5 Endorsements		-	-	-
1.5.1 Endorsements To The Central Bank Of Turkey		-	-	-
1.5.2 Other Endorsements		-	-	-
1.6 Other Guarantees		180,719	143,999	324,718
1.7 Other Warranties		-	4,318	4,318
II. COMMITMENTS	(5.3.1.)	50,194,084	1,305,169	51,499,253
2.1 Irrevocable Commitments		3,572,418	1,305,169	4,877,587
2.1.1 Forward Asset Purchase And Sales Commitments		345,756	1,295,480	1,641,236
2.1.2 Share Capital Commitment To Associates And Subsidiaries		-	-	-
2.1.3 Loan Granting Commitments		214,413	-	214,413
2.1.4 Securities Underwriting Commitments		-	-	-
2.1.5 Payment Commitments For Reserve Deposits		-	-	-
2.1.6 Payment Commitments For Checks		1,136,474	-	1,136,474
2.1.7 Tax And Fund Liabilities From Export Commitments		-	-	-
2.1.8 Commitments For Credit Card Expenditure Limits		1,858,018	-	1,858,018
2.1.9 Commitments For Credit Cards And Banking Services Promotions		-	-	-
2.1.10 Receivables From Short Sale Commitments		-	-	-
2.1.11 Payables For Short Sale Commitments		-	-	-
2.1.12 Other Irrevocable Commitments		17,757	9,689	27,446
2.2 Revocable Commitments		46,621,666	-	46,621,666
2.2.1 Revocable Loan Granting Commitments		46,621,666	-	46,621,666
2.2.2 Other Revocable Commitments		-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(5.3.2.)	935,800	22,448,018	23,383,818
3.1 Derivative Financial Instruments Held For Risk Management		-	2,165,533	2,165,533
3.1.1 Fair Value Hedges		-	-	-
3.1.2 Cash Flow Hedges		-	2,165,533	2,165,533
3.1.3 Hedge of net Investments in Foreign Operations		-	-	-
3.2 Held For Trading Transactions		935,800	20,282,485	21,218,285
3.2.1 Forward Foreign Currency Buy/Sell Transactions		652,622	1,755,501	2,408,123
3.2.1.1 Forward Foreign Currency Buy Transactions		347,631	862,093	1,209,724
3.2.1.2 Forward Foreign Currency Sell Transactions		304,991	893,408	1,198,399
3.2.2 Other Forward Buy/Sell Transactions		283,178	18,526,984	18,810,162
3.3 Other		-	-	-
B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)		316,497,679	142,487,425	458,985,104
IV. ITEMS HELD IN CUSTODY		10,816,866	5,644,771	16,461,637
4.1 Assets Under Management		-	-	-
4.2 Investment Securities Held In Custody		2,159,381	156,528	2,315,909
4.3 Checks Received For Collection		7,157,340	906,367	8,063,707
4.4 Commercial Notes Received For Collection		1,500,145	242,668	1,742,813
4.5 Other Assets Received For Collection		-	-	-
4.6 Assets Received For Public Offering		-	-	-
4.7 Other Items Under Custody		-	-	-
4.8 Custodians		-	4,339,208	4,339,208
V. PLEDGED ITEMS		305,669,174	136,780,695	442,449,869
5.1 Marketable Securities		185,945	99,786	285,731
5.2 Guarantee Notes		101,681	2,133,522	2,235,203
5.3 Commodity		6,094,405	633,381	6,727,786
5.4 Warranty		-	-	-
5.5 Properties		112,015,122	2,715,023	114,730,145
5.6 Other Pledged Items		187,272,021	131,198,983	318,471,004
5.7 Pledged Items-Depository		-	-	-
VI. ACCEPTED GUARANTEES AND WARRANTIES		11,639	61,959	73,598
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		374,044,196	171,700,059	545,744,255

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

STATEMENT OF CONSOLIDATED OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

				Audited Prior Period 31.12.2017
	Note	TL	FC	Total
A. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (I+II+III)		54,025,598	19,151,373	73,176,971
I. GUARANTEES	(5.3.1.)	6,501,080	4,570,973	11,072,053
1.1 Letters of guarantees		6,342,565	3,227,614	9,570,179
1.1.1 Guarantees subject to state tender law		214,018	-	214,018
1.1.2 Guarantees given for foreign trade operations		424,035	187,285	611,320
1.1.3 Other letters of guarantee		5,704,512	3,040,329	8,744,841
1.2 Bank loans		2,549	53,409	55,958
1.2.1 Import letter of acceptances		2,549	53,409	55,958
1.2.2 Other bank acceptances		-	-	-
1.3 Letter of credits		1,143	930,957	932,100
1.3.1 Documentary letter of credits		78	358,591	358,669
1.3.2 Other letter of credits		1,065	572,366	573,431
1.4 Pre-financing given as guarantee		-	27,919	27,919
1.5 Endorsements		-	-	-
1.5.1 Endorsements to the Central Bank of Republic of Turkey		-	-	-
1.5.2 Other endorsements		-	-	-
1.6 Other guarantees		154,823	331,074	485,897
1.7 Other collaterals		-	-	-
II. COMMITMENTS	(5.3.1.)	45,832,293	948,032	46,780,325
2.1 Irrevocable commitments		3,306,919	948,032	4,254,951
2.1.1 Forward asset purchase commitments		217,951	948,032	1,165,983
2.1.2 Share capital commitment to associates and subsidiaries		-	-	-
2.1.3 Loan granting commitments		368,519	-	368,519
2.1.4 Securities underwriting commitments		-	-	-
2.1.5 Commitments for reserve deposit requirements		-	-	-
2.1.6 Payment commitment for checks		1,345,239	-	1,345,239
2.1.7 Tax and fund liabilities from export commitments		99	-	99
2.1.8 Commitments for credit card expenditure limits		1,357,354	-	1,357,354
2.1.9 Commitments for promotions related with credit cards and banking activities		-	-	-
2.1.10 Receivables from short sale commitments		-	-	-
2.1.11 Payables for short sale commitments		-	-	-
2.1.12 Other irrevocable commitments		17,757	-	17,757
2.2 Revocable commitments		42,525,374	-	42,525,374
2.2.1 Revocable loan granting commitments		42,525,374	-	42,525,374
2.2.2 Other revocable commitments		-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(5.3.2.)	1,692,225	13,632,368	15,324,593
3.1 Derivative financial instruments for hedging purposes		-	1,565,503	1,565,503
3.1.1 Fair value hedge		-	-	-
3.1.2 Cash flow hedge		-	1,565,503	1,565,503
3.1.3 Hedge of net investment in foreign operations		-	-	-
3.2 Held for trading transactions		1,692,225	12,066,865	13,759,090
3.2.1 Forward foreign currency buy/sell transactions		737,140	1,804,963	2,542,103
3.2.1.1 Forward foreign currency transactions-buy		388,590	976,977	1,365,567
3.2.1.2 Forward foreign currency transactions-sell		348,550	827,986	1,176,536
3.2.2 Other forward buy/sell transactions		955,085	10,261,902	11,216,987
3.3 Other		-	-	-
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)		264,937,891	106,948,648	371,886,539
IV. ITEMS HELD IN CUSTODY		9,232,412	3,224,354	12,456,766
4.1 Assets under management		-	-	-
4.2 Investment securities held in custody		965,091	73,865	1,038,956
4.3 Checks received for collection		6,397,936	624,523	7,022,459
4.4 Commercial notes received for collection		1,869,385	190,069	2,059,454
4.5 Other assets received for collection		-	-	-
4.6 Assets received for public offering		-	-	-
4.7 Other items under custody		-	-	-
4.8 Custodians		-	2,335,897	2,335,897
V. PLEDGED ITEMS		255,693,840	103,679,813	359,373,653
5.1 Marketable securities		195,245	73,046	268,291
5.2 Guarantee notes		101,701	1,527,824	1,629,525
5.3 Commodity		5,045,489	470,272	5,515,761
5.4 Warranty		-	-	-
5.5 Properties		101,298,823	1,970,258	103,269,081
5.6 Other pledged items		149,052,582	99,638,413	248,690,995
5.7 Pledged items-depository		-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		11,639	44,481	56,120
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		318,963,489	126,100,021	445,063,510

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The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED INCOME STATEMENT

AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

3. CONSOLIDATED INCOME STATEMENT (STATEMENT OF INCOME / LOSS)

		Audited
		Current Period
		01.01.2018 - 31.12.2018
	Note	
I. PROFIT SHARE INCOME	(5.4.1.)	6,043,165
1.1 Profit Share On Loans		5,091,408
1.2 Profit Share On Reserve Deposits		92,411
1.3 Profit Share On Banks		172,954
1.4 Profit Share On Money Market Placements		-
1.5 Profit Share On Marketable Securities Portfolio		418,770
1.5.1 Fair Value Through Profit Or Loss		27,920
1.5.2 Fair Value Through Other Comprehensive Income		390,850
1.5.3 Measured At Amortised Cost		-
1.6 Finance Lease Income		229,320
1.7 Other Profit Share Income	(5.4.13.)	38,302
II. PROFIT SHARE EXPENSE	(5.4.2.)	2,857,709
2.1 Expense On Profit Sharing Accounts	(5.4.2.4.)	2,000,908
2.2 Profit Share Expense On Funds Borrowed		260,715
2.3 Profit Share Expense On Money Market Borrowings		35,789
2.4 Expense On Securities Issued		560,283
2.5 Other Profit Share Expense	(5.4.13.)	14
III. NET PROFIT SHARE INCOME (I - II)		3,185,456
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		367,871
4.1 Fees And Commissions Received		571,696
4.1.1 Non-Cash Loans		145,665
4.1.2 Other		426,031
4.2 Fees And Commissions Paid		203,825
4.2.1 Non-Cash Loans		27
4.2.2 Other	(5.4.13.)	203,798
V. PERSONNEL EXPENSES (-)		842,182
VI. DIVIDEND INCOME	(5.4.3.)	1,273
VII. NET TRADING INCOME / LOSS	(5.4.5.)	539,144
7.1 Capital Market Transaction Gain/Losses		10,241
7.2 Gain/Losses From Derivative Financial Instruments		136,774
7.3 Foreign Exchange Gain/Losses		392,129
VIII. OTHER OPERATING INCOME	(5.4.6.)	540,934
IX. NET OPERATING INCOME / LOSS (III+IV+V+VI+VII+ VIII)		3,792,496
X. EXPECTED LOSS PROVISIONS (-)	(5.4.7.)	1,979,564
XI. OTHER OPERATING EXPENSES (-)	(5.4.8.)	766,241
XII. NET OPERATING INCOME/(LOSS) (IX-X-XI)		1,046,691
XIII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-
XIV. INCOME / (LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		7,715
XV. INCOME / (LOSS) ON NET MONETARY POSITION		-
XVI. PROFIT/(LOSS) BEFORE TAX FROM CONTINUED OPERATIONS (XI+...+XIV)	(5.4.9.)	1,054,406
XVII. TAX PROVISION FOR CONTINUED OPERATIONS (±)	(5.4.10.)	(243,699)
17.1 Current Tax Provision		(454,233)
17.2 Deferred Tax Income Effect (+)		(46,249)
17.3 Deferred Tax Expense Effect (-)		256,783
XVIII. CURRENT PERIOD PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)	(5.4.11.)	810,707
XIX. INCOME FROM DISCONTINUED OPERATIONS		-
19.1 Income on Non-Current Assets Held For Sale		-
19.2 Income on Sale Of Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)		-
19.3 Income on Other Discontinued Operations	(5.4.13.)	-
XX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-
20.1 Losses From Non-Current Assets Held For Sale		-
20.2 Losses From Sale Of Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)		-
20.3 Losses From Other Discontinued Operations	(5.4.13.)	-
XXI. PROFIT / (LOSS) BEFORE TAX FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-
XXII. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-
22.1 Current Tax Provision		-
22.2 Deferred Tax Expense Effect (+)		-
22.3 Deferred Tax Income Effect (-)		-
XXIII. CURRENT PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)		-
XXIV. NET PROFIT/LOSS (XVII+XXII)	(5.4.12.)	810,707
24.1 Group's Income/Loss		809,543
24.2 Minority Interest Income/Loss (-)		1,164
Earnings Per Share Income/Loss		-

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED INCOME STATEMENT

AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Note	Audited 01.01.2017 - 31.12.2017
I. PROFIT SHARE INCOME	(5.4.1.)	3,867,338
1.1 Profit share on loans		3,343,174
1.2 Profit share on reserve deposits		50,595
1.3 Profit share on banks		31,929
1.4 Profit share on money market placements		-
1.5 Profit share on marketable securities portfolio		280,612
1.5.1 Held-for-trading financial assets		-
1.5.2 Financial assets at fair value through profit and loss		8,771
1.5.3 Available-for-sale financial assets		271,841
1.5.4 Investments held-to-maturity		-
1.6 Finance lease income		140,419
1.7 Other profit share income		20,609
II. PROFIT SHARE EXPENSE	(5.4.2.)	1,717,000
2.1 Expense on profit sharing accounts	(5.4.2.4.)	1,171,225
2.2 Profit share expense on funds borrowed		196,853
2.3 Profit share expense on money market borrowings		29,270
2.4 Expense on securities issued		319,652
2.5 Other profit share expense		-
III. NET PROFIT SHARE INCOME (I - II)		2,150,338
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		250,785
4.1 Fees and commissions received		406,055
4.1.1 Non-cash loans		117,348
4.1.2 Other		288,707
4.2 Fees and commissions paid		155,270
4.2.1 Non-cash loans		17
4.2.2 Other		155,253
V. DIVIDEND INCOME	(5.4.3.)	-
VI. NET TRADING INCOME	(5.4.4.)	288,332
6.1 Capital market transaction gains / (losses)		6,960
6.2 Gains/ (losses) from derivative financial instruments		(398,234)
6.3 Foreign exchange gains / (losses)		679,606
VII. OTHER OPERATING INCOME	(5.4.5.)	186,489
VIII. NET OPERATING INCOME (III+IV+V+VI+VII)		2,875,944
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(5.4.6.)	786,177
X. OTHER OPERATING EXPENSES (-)	(5.4.7.)	1,280,913
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		808,854
XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER		-
XIII. GAIN / (LOSS) ON EQUITY METHOD		4,104
XIV. GAIN / (LOSS) ON NET MONETARY POSITION		-
XV. PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+...+XIV)	(5.4.8.)	812,958
XVI. TAX CHARGE FOR CONTINUED OPERATIONS (±)	(5.4.9.)	(183,251)
16.1 Current income tax charge		(197,654)
16.2 Deferred tax charge / benefit		14,403
XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)	(5.4.10.)	629,707
XVIII. INCOME ON DISCONTINUED OPERATIONS		-
18.1 Income on assets held for sale		-
18.2 Income on sale of associates, subsidiaries and jointly controlled entities (joint vent.)		-
18.3 Income on other discontinued operations		-
XIX. LOSS FROM DISCONTINUED OPERATIONS (-)		-
19.1 Loss from assets held for sale		-
19.2 Loss on sale of associates, subsidiaries and jointly controlled entities (joint vent.)		-
19.3 Loss from other discontinued operations		-
XX. PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)		-
XXI. TAX CHARGE FOR DISCONTINUED OPERATIONS (±)		-
21.1 Current income tax charge		-
21.2 Deferred tax charge / benefit		-
XXII. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)		-
XXIII. NET PROFIT/LOSS (XVII+XXII)	(5.4.11.)	629,707
23.1 Group's income/loss		628,855
23.2 Minority interest income/loss (-)		852
Earnings per share income/loss (full TL)		-

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

4. CONSOLIDATED STATEMENT OF INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY (STATEMENT OF OTHER COMPREHENSIVE INCOME AND LOSS)

	Audited Current Period 01.01.2018- 31.12.2018
I. CURRENT PROFIT (LOSS)	810,707
II. OTHER COMPREHENSIVE INCOME	(31,385)
2.1 Other Comprehensive Income Not Reclassified Through Profit Or Loss	13,651
2.1.1 Property And Equipment Revaluation Increase/Decrease	-
2.1.2 Intangible Assets Revaluation Increase/Decrease	-
2.1.3 Defined Benefit Pension Plan Remeasurement Gain/Loss	17,064
2.1.4 Other Comprehensive Income Items Not Reclassified Through Profit Or Loss	-
2.1.5 Taxes Related to Other Comprehensive Income Items Not Reclassified Through Profit or Loss	(3,413)
2.2 Other Comprehensive Income Reclassified Through Profit Or Loss	(45,036)
2.2.1 Foreign Currency Translation Difference	89,577
2.2.2 Valuation And/Or Reclassification Income/Expense of the Financial Assets At Fair Value Through Other Comprehensive Income	(142,495)
2.2.3 Cash Flow Hedge Income /Loss	50,973
2.2.4 Foreign Net Investment Hedge Income/Loss	(86,930)
2.2.5 Other Comprehensive Income Items Reclassified Through Profit or Losses	-
2.2.6 Taxes Related Other Comprehensive Income Items Reclassified Through Profit Or Loss	43,839
III. TOTAL COMPREHENSIVE INCOME (LOSS) (I+II)	779,322

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Audited Prior Period 01.01.2017- 31.12.2017
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FROM AVAILABLE FOR SALE FINANCIAL ASSETS	30,871
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	-
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	14,106
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (EFFECTIVE PORTION OF FAIR VALUE DIFFERENCES)	3,295
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS (EFFECTIVE PORTION OF FAIR VALUE DIFFERENCES)	(41,449)
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY AS PER TURKISH ACCOUNTING STANDARDS	(16,493)
IX. DEFERRED TAX ON VALUATION DIFFERENCES	6,196
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	(3,474)
XI. PROFIT/LOSS	629,707
XI.1 Change in fair value of marketable securities (transfer to profit/loss)	(1,518)
XI.2 Reclassification of derivatives accounted for cash flow hedge purposes to income statement	-
XI.3 Reclassification of hedge of net investments in foreign operations to income statement	-
XI.4 Other	631,225
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	626,233

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

5. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

CHANGES IN THE EQUITY ITEMS	Accumulated Other Income or Loss That Will Not Be Reclassified to Profit or Loss				Accumulated Other Income or Loss That Will Be Reclassified to Profit or Loss				Net Profit/ Loss for the Period Note	Shareholders' Equity Less Minority Shares	Total Shareholders' Equity	
	1	2	3	4	5	6	Profit Reserves	Prior Period Profit or (Loss)				
Current Period												
(01.01.2018 - 31.12.2018)												
I. Prior Period Ending Balance	-	(26,947)	-	83,655	(10,583)	(60,766)	843,581	637,291	-	4,587,761	23,054	4,610,815
II. Corrections and Accounting Policy Changes Made According to TAS 8	-	-	-	-	-	-	-	35,540	-	35,540	-	35,540
2.1 Effect Of Corrections	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect Of Changes In Accounting Policies	-	-	-	-	-	-	-	35,540	-	35,540	-	35,540
III. Adjusted Beginning Balance (I+II)	-	(26,947)	-	83,655	(10,583)	(60,766)	843,581	672,831	-	4,623,301	23,054	4,646,355
IV. Total Comprehensive Income (Loss)	-	13,651	-	89,577	(106,567)	(28,046)	-	809,543	-	778,158	1,164	779,322
V. Capital Increase by Cash	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase by Internal Reserves	400,000	-	-	-	-	-	(400,000)	-	-	-	-	-
VII. Paid in Capital Inflation Adjustment Difference	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible Bonds to Share	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated Debt Instruments	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase / Decrease by Other Changes	-	-	-	-	-	-	(2,143)	-	-	(2,149)	894	(1,249)
XI. Profit Distribution	-	-	-	-	-	669,097	669,097	(673,991)	-	(4,894)	-	(4,894)
11.1 Dividends Paid	-	-	-	-	-	-	-	(4,894)	-	(4,894)	-	(4,894)
11.2 Transfers To Legal Reserves	-	-	-	-	-	-	669,097	(669,097)	-	-	-	-
11.3 Other	-	-	-	-	-	-	-	-	-	-	-	-
Balances at end of the period (III+IV+...+X+XI)												
	3,497,322	24,208	-	173,232	(117,150)	(88,812)	1,110,535	(1,160)	809,453	5,394,422	25,112	5,419,534

1. Revaluation income/losses of non-current assets,
2. Revaluation income/losses on defined benefit plans,
3. Other (Accrued amount of the other comprehensive income items that will not be reclassified as other profit or loss and the shares that will not be classified in profit or loss from the other comprehensive income of the investments under the equity method)
4. Foreign currency translation difference.
5. Income/losses on the revaluation and/or the reclassification of financial assets at fair value through other comprehensive income,
6. Other (ome/losses on cash flow hedges, accrued amount of the other comprehensive income items that will be reclassified as other profit or loss from the other comprehensive income of the investments under the equity method)

^(*) In the Ordinary General Assembly Meeting dated 3 April 2018, the Parent Bank decided on reserving primary reserves amounting to TL 33,700; other reserves amount to TL 12,419 funded via retained profit from sales of real estates, to not pay cash dividends to shareholders; dividend to management amount to TL 4,894; funding capital increase from internal sources via remaining net income amount to TL 387,142 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 489 and remaining amount to 234,908 to extraordinary legal reserves. In accordance with Article 3 of the Law on support for research and development activities numbered 5746, TL 439 received for the development activities carried out has not been distributed.

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Audited	Note	Paid-in capital	Effect of inflation accounting on paid-in capital	Share Premium	Share certificate cancellation	Share profits	Legal reserves	Statutory reserves	Extraordinary reserve	Other reserve	Current period income / (loss)	Prior period net income / (loss)	Marketable securities revaluation reserve	Tangible and intangible assets revaluation fund	Bonus shares from investments	Hedging reserves	Asset held for sale and disposal valuation fund	Total excluding minority interest	Minority interest	Total equity
I.	Prior Period - (01.01.2017-31.12.2017)																			
	Balances at beginning of the period	2,787,322	-	24,208	-	-	122,861	-	351,949	253,201	-	550,402	(35,280)	-	-	(70,836)	-	3,963,827	19,993	4,003,820
	Correction made as per TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Effect of corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	24,697	-	-	-	-	24,697	-	24,697
IV.	Adjusted balances at beginning of the period (H1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(30,523)	-	2,636	-	2,636
4.1	Changes during the period	-	-	-	-	-	-	-	-	33,159	-	-	-	-	-	2,636	-	2,636	-	2,636
4.2	Increase/decrease related to merger	-	-	-	-	-	-	-	-	33,159	-	-	-	-	-	(33,159)	-	-	-	-
V.	Marketable securities revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	Hedging funds (effective portion)	-	-	-	-	-	-	-	-	(136,532)	-	136,532	-	-	-	-	-	-	-	-
	Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Hedge of net investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Tangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Bonus shares obtained from associates, subsidiaries and jointly controlled operations	-	-	-	-	-	-	-	-	14,106	-	-	-	-	-	-	-	14,106	-	14,106
IX.	Foreign exchange differences	-	-	-	-	-	-	-	-	(80,767)	-	-	-	-	-	40,593	-	(50,174)	-	(50,174)
X.	Changes related to the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Changes related to the reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	The effect of change in associate's equity	-	-	-	-	-	1,299	-	-	-	-	-	-	-	-	-	-	1,299	-	1,299
XII.	Capital increase	310,000	-	-	-	-	-	-	-	(51,667)	-	(258,333)	-	-	-	-	-	-	-	-
12.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal sources	310,000	-	-	-	-	-	-	-	(51,667)	-	(258,333)	-	-	-	-	-	-	-	-
XIII.	Share issue premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Inflation adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Other ^(*)	-	-	-	-	-	-	-	-	(13,194)	-	-	-	-	-	-	-	(13,194)	2,209	(10,985)
XVII.	Net income/(loss) for the period	-	-	-	-	-	-	-	-	628,855	-	-	-	-	-	-	-	628,855	852	629,707
XVIII.	Profit distribution ^(**)	-	-	-	-	-	27,528	-	336,679	51,667	-	(420,165)	-	-	-	-	-	(4,291)	-	(4,291)
18.1	Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	Transfers to reserves	-	-	-	-	-	27,528	-	336,679	51,667	-	(415,874)	-	-	-	-	-	(4,291)	-	(4,291)
18.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Balances at end of the period (H1+II+III+...+XVI+XVII+XVIII)	(2-11)	3,097,322	24,208	-	-	151,688	-	688,628	59,973	628,855	84,336	(10,583)	-	-	(60,766)	-	4,587,761	23,054	4,610,815

^(*)Ordinary General Assembly Meeting dated 28 March 2017, the Bank decided on reserving primary reserves amount to TL 27,098; other reserves amount to TL 51,007 funded via retained profit from sales of real estates, cash dividend; dividend to management amount to TL 4,291; funding capital increase from internal sources via remaining net income amount to TL 121,801 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 430 and remaining amount to TL 336,679 to extraordinary legal reserves, other reserve amount to TL 660 which obtained from research and development activities according to Law No. 5746 under Articles3, 136,532 TL funding capital increase from internal sources.

^(**) Amounting to TL (13,194) represents actual loss and tax effect of retirement payments.

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The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

6. CONSOLIDATED CASH FLOWS STATEMENT

	Note	Audited Current Period 01.01.2018 - 31.12.2018
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating Profit Before Changes In Assets And Liabilities From Banking Operations		2,478,564
1.1.1 Profit Share Income Received		5,705,346
1.1.2 Profit Share Expense Paid		(2,666,854)
1.1.3 Dividends Received		1,096
1.1.4 Fees And Commissions Received		576,090
1.1.5 Other Income		1,024,683
1.1.6 Collections From Previously Written Off Loans		106,667
1.1.7 Payments To Personnel And Service Suppliers		(781,850)
1.1.8 Taxes Paid		(403,181)
1.1.9 Others	(6.3.)	(1,083,433)
1.2 Changes In Assets And Liabilities Subject to Banking Operations		2,183,958
1.2.1 Net (Increase) Decrease In Financial Assets Held For Sale		89,843
1.2.2 Net (Increase) Decrease In Financial Assets At Fair Value Through Profit Or Loss		101,518
1.2.3 Net (Increase) Decrease In Due From Banks And Other Financial Institutions		(9,455,894)
1.2.4 Net (Increase) Decrease In Loans	(6.3.)	(2,846,285)
1.2.5 Net (Increase) Decrease In Other Assets		252,892
1.2.6 Net Increase (Decrease) In Bank Deposits		14,548,317
1.2.7 Net Increase (Decrease) In Other Deposits		-
1.2.8 Net Increase (Decrease) In Funds Borrowed		(1,408,194)
1.2.9 Net Increase (Decrease) In Due Payables		-
1.2.10 Net Increase (Decrease) In Other Liabilities	(6.3.)	901,761
I. Net Cash Provided From / (Used In) Banking Operations		4,662,522
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided From / (Used In) Investing Activities		(1,762,343)
2.1 Cash Paid For Purchase Jointly Controlled Operations, Associates And Subsidiaries		-
2.2 Cash Obtained From Sale Of Jointly Controlled Operations, Associates And Subsidiaries		16,901
2.3 Fixed Assets Purchases		(65,736)
2.4 Fixed Assets Sales		-
2.5 Cash Paid For Purchase of Financial Assets at Fair Value Through Other Comprehensive Income		(4,043,117)
2.6 Cash Obtained From Sale of Financial Assets at Fair Value Through Other Comprehensive Income		2,424,997
2.7 Cash Paid For Purchase Of Investment Securities		-
2.8 Cash Obtained From Sale Of Investment Securities		-
2.9 Other		(95,388)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided From / (Used In) Financing Activities		404,171
3.1 Cash Obtained From Funds Borrowed And Securities Issued		4,744,065
3.2 Cash Used For Repayment Of Funds Borrowed And Securities Issued		(4,335,000)
3.3 Capital Increase		-
3.4 Dividends Paid		(4,894)
3.5 Payments For Finance Leases		-
3.6 Other		-
IV. Effect Of Change In Foreign Exchange Rate On Cash And Cash Equivalents	(6.4.)	(66,621)
V. Net Increase (Decrease) In Cash And Cash Equivalents		3,237,729
VI. Cash And Cash Equivalents At The Beginning Of The Period	(6.1.1.)	3,472,726
VII. Cash And Cash Equivalents At The End Of The Period	(6.1.1.2.)	6,710,455

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Note	Audited Prior Period 01.01.2017-31.12.2017
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating profit before changes in operating assets and liabilities		1,394,462
1.1.1 Profit share income received		4,304,305
1.1.2 Profit share expense paid		(1,664,208)
1.1.3 Dividend received		-
1.1.4 Fees and commissions received		407,452
1.1.5 Other income		398,357
1.1.6 Collections from previously written off loans		53,054
1.1.7 Payments to personnel and service suppliers		(991,075)
1.1.8 Taxes paid		(222,108)
1.1.9 Others	(6.3.)	(891,315)
1.2 Changes in operating assets and liabilities		(3,446,052)
1.2.1 Net (increase) decrease held for trading financial assets		(9,866)
1.2.2 Net (increase) decrease in financial assets at fair value through profit or loss		-
1.2.3 Net (increase) decrease in due from banks and other financial institutions		(916,309)
1.2.4 Net (increase) decrease in loans		(9,534,520)
1.2.5 Net (increase) decrease in other assets	(6.3.)	(279,341)
1.2.6 Net increase (decrease) in bank deposits		-
1.2.7 Net increase (decrease) in other deposits		8,189,069
1.2.8 Net increase (decrease) in funds borrowed		(508,799)
1.2.9 Net increase (decrease) in due payables		-
1.2.10 Net increase (decrease) in other liabilities	(6.3.)	(386,286)
I. Net cash provided from / (used in) banking operations		(2,051,590)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net cash provided from / (used in) investing activities		(649,580)
2.1 Cash paid for purchase jointly controlled operations, associates and subsidiaries		-
2.2 Cash obtained from sale of jointly controlled operations, associates and subsidiaries		132,619
2.3 Fixed assets purchases		(83,840)
2.4 Fixed assets sales		1,998
2.5 Cash paid for purchase of financial assets available for sale		(2,139,911)
2.6 Cash obtained from sale of financial assets available for sale		1,498,651
2.7 Cash paid for purchase of investment securities		-
2.8 Cash obtained from sale of investment securities		-
2.9 Other		(59,097)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash provided from / (used in) financing activities		1,291,567
3.1 Cash obtained from funds borrowed and securities issued		3,085,860
3.2 Cash used for repayment of funds borrowed and securities issued		(1,790,002)
3.3 Capital increase		-
3.4 Dividends paid		(4,291)
3.5 Payments for finance leases		-
3.6 Other		-
IV. Effect of change in foreign exchange rate on cash and cash equivalents	(6.4.)	(16,107)
V. Net increase (decrease) in cash and cash equivalents (I + II + III + IV)		(1,425,710)
VI. Cash and cash equivalents at the beginning of the period	(6.1.1.1.)	4,898,436
VII. Cash and cash equivalents at the end of the period	(6.1.1.1.)	3,472,726

^(*) Due to the liquidation of the subsidiary of the Group in Dubai, TL 202,431 amount cash inflow to the Group. TL 69,812 of that cash inflow is indicated on Cash and cash equivalents at the beginning of the period

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

7. THE PARENT BANK'S STATEMENT OF PROFIT DISTRIBUTION

	Audited Current Period 01.01.2018 - 31.12.2018 ^(*)
I. Distribution of current year profit	
1.1. Current period profit	1,126,057
1.2. Taxes and legal duties payable (-)	256,245
1.2.1. Corporate tax (income tax)	454,141
1.2.2. Withholding tax	-
1.2.3. Other taxes and duties ^(**)	(197,896)
A. Net profit for the period (1.1-1.2) (Not V-I-17-c)	869,812
1.3. Accumulated losses (-)	-
1.4. First legal reserves (-)	-
1.5. Other statutory reserves (-)	-
B. Net profit available for distribution [(A-(1.3+1.4+1.5))]	869,812
1.6. First dividend to shareholders (-)	-
1.6.1. To owners of ordinary shares	-
1.6.2. To owners of privileged shares	-
1.6.3. To owners of redeemed shares	-
1.6.4. To profit sharing bonds	-
1.6.5. To holders of profit and loss sharing certificates	-
1.7. Dividends to personnel(-)	-
1.8. Dividends to board of directors (-)	-
1.9. Second dividend to shareholders (-)	-
1.9.1. To owners of ordinary shares	-
1.9.2. To owners of privileged shares	-
1.9.3. To owners of redeemed shares	-
1.9.4. To profit sharing bonds	-
1.9.5. To holders of profit and loss sharing certificates	-
1.10. Second legal reserves (-)	-
1.11. Status reserves (-)	-
1.12. Extra ordinary reserves ^(**)	-
1.13. Other reserves	-
1.14. Special funds	-
II. Distribution of reserves	-
2.1. Appropriated reserves	-
2.2. Second legal reserves (-)	-
2.3. Dividends to shareholders (-)	-
2.3.1. To owners of ordinary shares	-
2.3.2. To owners of privileged shares	-
2.3.3. To owners of redeemed shares	-
2.3.4. To profit sharing bonds	-
2.3.5. To holders of profit and loss sharing certificates	-
2.4. Dividends to personnel (-)	-
2.5. Dividends to board of directors (-)	-
III. Earnings per share	-
3.1. To owners of ordinary shares	-
3.2. To owners of ordinary shares (%)	-
3.3. To owners of privileged shares	-
3.4. To owners of privileged shares (%)	-
IV. Dividend per share	-

^(*) The profit distribution of the Bank is decided by the General Assembly which is not held as of date of these financial statements

^(**) Deferred income tax is presented under other tax and legal liabilities. Deferred tax income can not be added into profit distribution, thus it is classified under extraordinary reserves.

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

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KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Audited Prior Period 01.01.2017 - 31.12.2017
I. Distribution of current year profit	
1.1. Current period profit	848,933
1.2. Taxes and legal duties payable (-)	174,942
1.2.1. Corporate tax (income tax)	197,638
1.2.2. Withholding tax	-
1.2.3. Other taxes and duties ^(*)	(22,696)
A. Net profit for the period (1.1-1.2) (Not V-I-17-c)	673,991
1.3. Accumulated losses (-)	-
1.4. First legal reserves (-)	33,700
1.5. Other statutory reserves (-)	-
B. Net profit available for distribution [(A)-(1.3+1.4+1.5)]	640,291
1.6. First dividend to shareholders (-)	-
1.6.1. To owners of ordinary shares	-
1.6.2. To owners of privileged shares	-
1.6.3. To owners of redeemed shares	-
1.6.4. To profit sharing bonds	-
1.6.5. To holders of profit and loss sharing certificates	-
1.7. Dividends to personnel(-)	-
1.8. Dividends to board of directors (-)	4,894
1.9. Second dividend to shareholders (-)	-
1.9.1. To owners of ordinary shares	-
1.9.2. To owners of privileged shares	-
1.9.3. To owners of redeemed shares	-
1.9.4. To profit sharing bonds	-
1.9.5. To holders of profit and loss sharing certificates	-
1.10. Second legal reserves (-)	489
1.11. Status reserves (-)	-
1.12. Extra ordinary reserves ^(**)	234,908
1.13. Other reserves	12,858
1.14. Special funds	-
II. Distribution of reserves	-
2.1. Appropriated reserves	-
2.2. Second legal reserves (-)	-
2.3. Dividends to shareholders (-)	-
2.3.1. To owners of ordinary shares	-
2.3.2. To owners of privileged shares	-
2.3.3. To owners of redeemed shares	-
2.3.4. To profit sharing bonds	-
2.3.5. To holders of profit and loss sharing certificates	-
2.4. Dividends to personnel (-)	-
2.5. Dividends to board of directors (-)	-
III. Earnings per share	-
3.1. To owners of ordinary shares	-
3.2. To owners of ordinary shares (%)	-
3.3. To owners of privileged shares	-
3.4. To owners of privileged shares (%)	-
IV. Dividend per share	-
4.1. To owners of ordinary shares	-
4.2. To owners of ordinary shares (%)	-
4.3. To owners of privileged shares	-
4.4. To owners of privileged shares (%)	-

^(*) Deferred tax income is presented under other tax and legal liabilities. It should not be subject to profit distribution and is kept in extraordinary reserves.

^(**) TL 12,858 from other reserves and TL 387,142 from prior period profit has been added to share capital.

Note: As per the terms of the transition to TFRS 9, the prior period financial statements and related disclosures are not restated. Since 2017 and 2018 financial statements were prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION THREE ACCOUNTING PRINCIPLES

1. Explanations on basis of presentation

1.1 The preparation of the consolidated financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on Accounting Applications for Banks and Safeguarding of Documents:

The Bank prepares its consolidated financial statements in accordance with “the Banking Regulation and Supervision Agency (“BRSA”) Accounting and Reporting Regulation” which includes the regulation on “The Procedures and Principles Regarding Banks’ Accounting Practices and Maintaining Documents” published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.2 Classifications

Records of Classifications and Amendments Regarding the Initial Implementation of TFRS 9 Financial Instruments dated 1 January 2018 are demonstrated on the table below:

	31/12/2017	TFRS 9 Classification Effect	TFRS 9 Evaluation Effect	01/01/2018
ASSETS				
FINANCIAL ASSETS (Net)	17,108,757	-	(6,096)	17,102,661
Cash and Cash Equivalents	12,596,793	-	-	12,596,793
Cash And Balances With Central Bank	9,024,719	-	-	9,024,719
Banks	3,572,074	-	-	3,572,074
Receivables From Money Markets	-	-	-	-
Financial Assets At Fair Value Through Profit Or Loss	88,234	(26,699)	-	61,535
Government Debt Securities	36,319	-	-	36,319
Equity Instruments	-	-	-	-
Derivative Financial Assets Held for Trading	26,699	(26,699)	-	-
Other Financial Assets	25,216	-	-	25,216
Financial Assets At Fair Value Through Other Comprehensive Income	4,423,730	-	-	4,423,730
Government Debt Securities	4,103,448	-	-	4,103,448
Equity Instruments	48,497	-	-	48,497
Other Financial Assets	271,785	-	-	271,785
Financial Assets Measured At Amortised Cost	-	-	-	-
Government Debt Securities	-	-	-	-
Other Financial Assets	-	-	-	-
Derivative Financial Assets	-	26,699	-	26,699
Derivative Financial Assets At Fair Value Through Profit Or Loss	-	26,699	-	26,699
Derivative Financial Assets At Fair Value Through Other Comprehensive Income	-	-	-	-
Non-Performing Financial Assets	-	-	-	-
Expected Loss Provision (-)	-	-	6,096	6,096
LOANS (Net)	38,686,230	(203,329)	50,622	38,533,523
Loans	36,558,208	-	-	36,558,208
Loans Measured At Amortised Cost	36,558,208	(57,516)	-	36,500,692
Loans At Fair Value Through Profit Or Loss	-	57,516	-	57,516
Loans At Fair Value Through Other Comprehensive Income	-	-	-	-
Lease Receivable	2,080,730	-	-	2,080,730
Finance Lease Receivables	2,395,740	-	-	2,395,740
Operational Lease Receivables	-	-	-	-
Unearned Income (-)	315,010	-	-	315,010
Factoring Receivables	-	-	-	-
Measured At Amortised Cost	-	-	-	-
Fair Value Through Profit Or Loss	-	-	-	-
Fair Value Through Other Comprehensive Income	-	-	-	-
Non-Performing Loans	715,060	-	-	715,060
Expected Credit Losses (-)	667,768	203,329	(50,622)	820,475
12-Month Expected Credit Losses (Stage I)	-	180,452	(49,378)	131,074
Significant Increase In Credit Risk (Stage II)	-	22,877	176,132	199,009
Credit-Impaired Losses (Stage III / Special Provision)	667,768	-	(177,376)	490,392
PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS(NET)	117,006	-	-	117,006
Held For Sale	117,006	-	-	117,006
Related to Discontinued Operations	-	-	-	-
EQUITY INVESTMENTS	43,085	-	-	43,085
Investments in Associates (Net)	-	-	-	-
Associates Valued Based on Equity Method	-	-	-	-
Unconsolidated Associates	-	-	-	-
Subsidiaries (Net)	23,680	-	-	23,680
Unconsolidated Financial Subsidiaries	-	-	-	-
Unconsolidated Non-Financial Subsidiaries	23,680	-	-	23,680
Joint Ventures (Net)	19,405	-	-	19,405
Joint Ventures Valued Based on Equity Method	19,405	-	-	19,405
Unconsolidated Joint Ventures	-	-	-	-
TANGIBLE ASSETS (Net)	416,049	-	-	416,049
INTANGIBLE ASSETS (Net)	168,965	-	-	168,965
Goodwill	-	-	-	-
Other	168,965	-	-	168,965
INVESTMENT PROPERTIES (Net)	25,419	-	-	25,419
CURRENT TAX ASSETS	-	-	-	-
DEFERRED TAX ASSETS	138,710	-	-	138,710
OTHER ASSETS	860,481	-	-	860,481
TOTAL ASSETS	57,564,702	(203,329)	44,526	57,405,899

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

LIABILITIES	31/12/2017	TFRS 9 Classification Effect	TFRS 9 Evaluation Effect	01/01/2018
FUNDS COLLECTED	40,254,963	-	-	40,254,963
FUNDS BORROWED	3,387,127	-	-	3,387,127
MONEY MARKETS	750,524	-	-	750,524
SECURITIES ISSUED (Net)	5,651,841	-	-	5,651,841
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-
DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	80,697	(80,697)	-	-
DERIVATIVE FINANCIAL LIABILITIES	-	151,492	-	151,492
Derivative Financial Liabilities At Fair Value Through Profit Or Loss	-	151,492	-	151,492
Derivative Financial Liabilities At Fair Value Through Other Comprehensive Income	-	-	-	-
LEASE PAYABLES	-	-	-	-
Finance Lease Payables	-	-	-	-
Operating Lease Payables	-	-	-	-
Other	-	-	-	-
Deferred Finance Lease Expenses (-)	-	-	-	-
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	70,795	(70,795)	-	-
Fair Value Hedge	-	-	-	-
Cash Flow Hedge	70,795	(70,795)	-	-
Hedge Of Net Investment In Foreign Operations	-	-	-	-
PROVISIONS	795,420	(203,329)	-	592,091
General Provisions	407,954	(407,954)	-	-
Restructuring Provision	-	-	-	-
Reserves For Employee Benefits	185,394	-	-	185,394
Insurance For Technical Provision (Net)	-	-	-	-
Other Provisions	202,072	204,625	-	406,697
CURRENT TAX LIABILITIES	56,259	-	-	56,259
DEFERRED TAX LIABILITIES	-	-	8,986	8,986
LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	-	-	-	-
Held For Sale	-	-	-	-
Related To Discontinued Operations	-	-	-	-
SUBORDINATED DEBT INSTRUMENTS	1,360,338	-	-	1,360,338
Loans	1,360,338	-	-	1,360,338
Other Debt Instruments	-	-	-	-
SUNDRY CREDITORS	200,005	(200,005)	-	-
OTHER FOREIGN RESOURCES	345,918	(345,918)	-	-
OTHER LIABILITIES	-	545,923	-	545,923
SHAREHOLDERS' EQUITY	4,610,815	-	35,540	4,646,355
Paid-In Capital	3,097,322	-	-	3,097,322
Capital Reserves	(74,088)	98,296	-	24,208
Equity Share Premiums	24,208	-	-	24,208
Share Cancellation Profits	-	-	-	-
Other Capital Reserves	(26,947)	26,947	-	-
Other Accumulated Comprehensive Income or Loss That Will Not Be Reclassified Through Profit Or Loss	-	(26,947)	-	(26,947)
Other Accumulated Comprehensive Income or Loss That Will Be Reclassified Through Profit Or Loss	-	(71,349)	-	(71,349)
Marketable Securities Revaluation Reserve	(10,583)	10,583	-	-
Tangible Assets Revaluation Reserve	-	-	-	-
Intangible Assets Revaluation Reserve	-	-	-	-
Investment Property Revaluation Reserve	-	-	-	-
Bonus Shares Obtained From Associates, Subsidiaries And Jointly Controlled Entities	-	-	-	-
Hedging Funds (Effective Portion)	(60,766)	60,766	-	-
Value Increase On Assets Held For Resale	-	-	-	-
Profit Reserves	927,236	-	-	927,236
Legal Reserves	151,688	-	-	151,688
Statutory Reserves	-	-	-	-
Extraordinary Reserves	688,628	-	-	688,628
Other Profit Reserves	86,920	-	-	86,920
Profit Or Loss	637,291	-	35,540	672,831
Prior Years' Profits Or Losses	8,436	-	35,540	43,976
Current Period Net Profit Or Loss	628,855	-	-	628,855
Minority Shares	23,054	-	-	23,054
TOTAL LIABILITIES	57,564,702	(203,329)	44,526	57,405,899

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Details of the Records of Classifications and Amendments Regarding the Initial Implementation of TFRS 9 Financial Instruments dated 1 January 2018 are stated below.

- A- As of 1 January 2018, securities portfolio amounting to TL 216,708 classified under "Held for Trading Financial Assets" in the prior period, were reclassified under "Financial Assets at the Fair Value through Profit or Loss" as they were considered within the scope of a business model whose objective is to collect and to sell contractual cash flows.
- B- As of 1 January 2018, securities portfolio amounting to TL 4,428,065 classified under "Available for Sale Financial Assets" in the prior period, were reclassified under "Financial Assets classified as Fair Value through Other Comprehensive Income" as they were considered within the scope of a business model whose objective is to collect and to sell contractual cash flows.
- C- In accordance with TFRS 9, as of 1 January 2018, prior period "General Provisions" item has been written off and the impact of "Expected Loss Provisions" is reflected through relevant lines. As per the scope of TFRS 9, expected credit losses for financial assets and loans are classified as "Expected Loss Provisions" under Assets, credit losses for non-cash loans are classified as "Other Provisions" under in Liabilities.

Reconciliation of provision of impairment opening balances in transition to TFRS 9 is stated below.

Reconciliation of provision of impairment opening balances in transition to TFRS 9			
Parent Bank	Book Value Before TFRS 9 31/12/2017	Remeasurements and Classification	Book Value after TFRS 9 01/01/2018
General Provisions	405,468	(405,468)	-
Expected Credit Losses	666,947	158,803	825,750
12 Month Expected Credit Losses (Stage I)	-	131,074	131,074
Significant Increase in Credit Risk (Stage II)	-	199,009	199,009
Credit-Impaired Losses (Stage III/Special Provision)	666,947	(177,376)	489,571
Financial Assets	-	6,096	6,096
Other Provisions	200,923	202,139	403,062
Total	1,273,338	(44,526)	1,228,812

D- With the initial application of TFRS 9, as of 1 January 2018, a total increase after tax amounting TL 35,540 has occurred, due to the increase of TL 44,526 from the calculation of expected loss provisions and the decrease of TL 8,986 from the effect of deferred tax.

1.3 Accounting policies and valuation principles applied in the preparation of consolidated financial statements:

The consolidated financial statements have been prepared in TL, under the historical cost convention except for the financial assets and liabilities held for trading carried at fair value.

The preparation of consolidated financial statements in conformity with TAS requires the Bank management to make assumptions and estimates with respect to assets and liabilities on the balance sheet and contingent issues outstanding as of the balance sheet date. These assumptions and estimates are mainly related with the determination of the fair values of the financial instruments and determination of the impairments on assets and these assumptions are being reviewed regularly and, when necessary, appropriate corrections are made and the effects of these corrections are reflected to the income statement.

1.4 Preparation of the consolidated financial statements in the current purchasing power of money:

Until 31 December 2004, the financial statements of the Group were subject to inflation adjustments in accordance with Turkish Accounting Standard No: 29 "Financial Reporting in Hyperinflationary Economies" ("TAS 29"). BRSA explained with its decision numbered 1623 and dated 21 April 2005 and its circular dated 28 April 2005 that the conditions for applying inflation accounting was no longer applicable and accordingly inflation accounting has not been applied beginning from 1 January 2005.

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1.5 Disclosures of TFRS 9 Financial Instruments:

TFRS 9 "Financial Instruments", which is effective as at 1 January 2018 is published by the Public Oversight Accounting and Auditing Standards Authority ("POA") in the Official Gazette numbered 29953 dated 19 January 2017. TFRS 9 replaced TAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

TFRS 9 also includes new principles for general hedge accounting which aims to harmonize hedge accounting with risk management applications. In the admission of the accounting policies, TFRS 9 presents the option of postponing the adoption of TFRS 9 hedge accounting and continuing to apply the hedge accounting provisions of TAS 39. Within this context, the Group will continue to apply the hedge accounting provisions of TAS 39.

All recognized financial assets that are within the scope of TFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

Dividends obtained from such investments are accounted in the financial statements as profit or loss unless they are evidently a part of the recoverable cost of investment.

The Bank applied the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods.

The combined application of the contractual cash flow characteristics and business models as at 1 January 2018 is expected to result in no major difference in the classification of financial assets when compared to the classification under TAS 39.

The Group has not restated the comparative information for the financial instruments that are under the scope TFRS 9, for the year of 2017 and as of 1 January 2018, the cumulative effect of the first application of the standard has been presented under "Retained Earnings" in the statement of changes in shareholders' equity for the current period.

Classification and measurement of financial assets:

According to TFRS 9 requirements, classification and measurement of financial assets depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and profit share (SPPI)".

As per TFRS 9, financial assets at fair value through profit or loss, financial assets available for sale and financial assets held to maturity which are the financial instrument categories under TAS 39; are replaced with financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost; respectively.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). As the requirements under TFRS 9 are different than the assessments under the existing TAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under TAS 39.

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Impairment:

As of 1 January 2018, the Bank recognized provisions for impairment in accordance with the TFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA as mentioned in the Section 3 Part VII-c of Explanation on Accounting Policies changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

Some modelling works were made in relation to the basic components of Expected Credit Loss in advance of the adoption of TFRS 9, and developed models for Probability of Default (POD) on the basis of various credit portfolio. Credit portfolio is determined in accordance with customer segments constituting the basis of banking activities. Cyclical Probabilities of Default made with these models developed in order to use in the Internal Ratings-Based Approach (IRBA) are converted into Instant Probabilities of Default, and these instant probabilities of default are used to calculate Expected Credit Loss in scope of TFRS 9. Loss Given Default (LGD) calculation reflects state withholding rates and the bank's prior collection performance in unsecured loans. Default Amount (DA) corresponds to the used balance in the reporting date for money loans, and to the balance after the application of the credit conversion rate for Non-cash loans and commitment risks.

Macroeconomic scenarios impact values of DP and LGD. Three scenarios as Base, Good and Bad and expected credit loss are calculated. The default probabilities of borrowers and the loss given default ratios are changing for each scenario.

Stage 1: TFRS 9 replaces the 'realized loss' model in TAS 39 with the 'expected credit loss' model. The Parent Bank has created a 3-stage impairment model based on a change in credit quality after initial recognition.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

B Within this scope, main considerations that are taken into account in determining the significant increase in the credit risk of a financial asset and transferring to stage 2 are not limited to these but the following.

- Default for 30 days and over as of reporting date
- Being in the scope of restructuring
- Performing close monitoring
- Assessment of rating impairment

The definition of rating note distortion is the comparison by Bank between rating note at reporting date and rating note at credit opening date by using credit rating models on the basis of Bank's models of credit rating models depending on internal ratings. It is accepted as a rating distortion when a credit note that is calculated for the credit at reporting date, exceeds the determined threshold.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The impact of the adoption of TFRS 9 on the financial statements as of 1 January 2018, is recorded. Besides, the Bank calculated deferred tax on the expected credit losses calculated on stage 1 and 2 loans and the impact regarding calculated deferred tax asset was accounted for under equity during transition.

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1.6 Explanations on Revenue Standard from TFRS 15 Customer Contracts:

TFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the TAS 18 Revenue standard. The standard became effective on 1 January 2018 and has no material impact on the unconsolidated financial statements of the Bank.

1.7 Explanations on TFRS 16 Leases Standard

TFRS 16 Leases Standard was published in the Official Gazette dated 16 April 2018 and numbered 29826, to be applied in the accounting periods beginning after 31 December 2018. According to this standard, the difference between operating leases and financial leases has been eliminated and leasing transactions will be shown by the lessee on the balance sheet as the asset (utilization right) and financial debt related to lease payment.

The Bank has started its operations to comply with TFRS 16 Leases standard as of January 1, 2019, and its work still continues as of 31 December 2018. As of 1 January 2019, no significant impact on the Bank's financial statements is expected during the transition to TFRS 16.

The Bank will apply this standard from 1 January 2019, the mandatory application date. The Bank plans not to use the simplified migration application and to rearrange the comparable amounts for the year prior to the first implementation.

2. Explanations on strategy of using financial instruments and foreign currency transactions

The Group follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Bank's exposure to liquidity risk, currency risk and credit risk while increasing profitability and strengthening the Bank's equity. The assets-liabilities committee (ALCO) manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee.

Gains and losses arising from foreign currency transactions have been recorded in the period in which the transaction took place. Foreign currency denominated monetary assets and liabilities are valued with the period end exchange rates published by the Central Bank of Turkey converting them into Turkish Lira. Valuation differences of foreign currencies have been recognized in the income statement under the 'Net foreign exchange income/expense' Account. The foreign currency exchange differences resulting from the translation of debt securities issued and monetary financial instruments into Turkish Lira are included in the income statement. There are no foreign currency differences capitalized by the Group.

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3. Information about the Parent Bank and its Consolidated Subsidiaries

The consolidated financial statements have been prepared in accordance with the "Consolidated Financial Statements" ("TFRS 10").

The subsidiaries included in consolidation and their places of incorporation, nature of activities and shareholding percentages are as follows:

Description	Address (City/ Country)	Principal Activity	31 December 2018	31 December 2017	Consolidation Method
KT Bank AG	Frankfurt/Germany	Banking	%100.00	%100.00	Full consolidation
KT Kira Sertifikaları Varlık Kiralama A.Ş.	Istanbul/Turkey	Financial Institution	%100.00	%100.00	Full consolidation
KT Sukuk Varlık Kiralama A.Ş.	Istanbul/Turkey	Financial Institution	%100.00	%100.00	Full consolidation
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	Financial Institution	%75.00	%75.00	Full consolidation
KT Sukuk Company Limited	George Town/ Cayman Islands	Financial Institution	%100.00	%100.00	Full consolidation
Katılım Emeklilik ve Hayat A.Ş.	Istanbul/Turkey	Financial Institution	%50.00	%50.00	Accounted for under equity method
KT Portföy Yönetimi A.Ş.	Istanbul/Turkey	Financial Institution	%50.00	%100.00	Accounted for under equity method

The Parent Bank and its consolidated subsidiaries of the Parent Bank, as a whole, are named as "Group".

Consolidation principles of subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent Bank. Subsidiaries are consolidated using the full consolidation method. Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Parent Bank.

Control is obtained as the Bank has more than half of the voting rights directly or indirectly through subsidiaries or do not have the majority of the voting rights but has privileged shares or has half of the voting rights with respect to agreements made with other shareholders or has authority to manage financial and operating policies of the company through a regulation or an agreement or has power to control the majority of votes at the board of directors or at executive body containing these rights or has power to appoint or dispose the majority of the members of the board of directors.

In the full consolidation method, 100% assets, liabilities, income, expense and off-balance sheet items of subsidiaries are combined with the Parent Bank's assets, liabilities, and income, expense and off-balance sheet items. The carrying amount of the Group's investment in each subsidiary and the Group's portion of the cost value of the capital of each subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Minority interests in the net income of consolidated subsidiaries are identified and adjusted against the income of the Group in order to arrive at the net income attributable to the Group and presented separately in the Group's income.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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4. Explanations on forward transactions and option contracts and derivative instruments

The Group enters into forward agreements to mitigate its currency risk and to manage its foreign currency liquidity. The Bank classifies its derivative instruments as "Derivative Financial Instruments Held for Hedging Purposes" and "Financial asset at fair value through profit or loss" in accordance with "TFRS 9". Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as "Financial asset at fair value through profit or loss" within the framework of "TFRS 9", and are reflected in the "Derivative Financial Assets / Liabilities" account in the balance sheet.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions and swaps are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under 'Trading Income/Loss' line in the income statement.

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Embedded derivatives are accounted as derivative instruments in-line with "TFRS 9". If the embedded derivatives are closely related with the host contract, embedded derivatives are accounted for in-line with the relevant standard applicable for the host contract.

While choosing the accounting policy under TFRS 9, the Bank has the option to defer the adoption of hedge accounting policy and to continue apply the accounting terms of TAS 39. Within this scope, the Bank shall continue applying the terms of hedge accounting policy specified under TAS 39.

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.

5. Explanations on profit share income and expense

Profit share income is recognized in the income statement on an accrual basis by using the method of internal rate of return and is accounted under profit share income account in the financial statements. In accordance with the related regulation, the profit share accruals of non-performing loans are cancelled and are not recorded until the profit share income is realized.

For the customers who have become non-performing loans after 1 January 2018, which is the transition date of TFRS 9, accruals and rediscounts are not canceled and calculations are continued under TFRS 9.

The Group calculates expense accrual in accordance with the unit value calculation method on profit/loss sharing accounts and reflects these amounts in "Funds Collected" on the balance sheet.

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6. Explanation on fees and commission income and expenses

Except for the fees and commission income and expenses obtained for some banking services which are recorded as income when collected, fees and commission income/expenses are reflected in the income statement over the period of the related transaction.

In accordance with the provisions of TAS, commission and fees collected in advance for loans granted are deferred and reflected to the income statement by using the internal rate of return method. Unearned portion of the commission and fees relating to the future periods are recorded to the "Unearned Revenues" account under "Other Liabilities" on the balance sheet.

7. Explanations on financial assets

The Group classifies and accounts for its financial assets as 'Fair Value Through Profit/Loss', 'Fair Value Through Other Comprehensive Income,' or 'Amortized Cost.' Such financial assets, are recognized and derecognized as per the terms of "Recognition and Derecognition in Financial Statements" under the section three of the "TFRS 9 Financial Instruments" regarding the classification and measurements of financial instruments, published in the Official Gazette numbered 29953 and dated 19 January 2017 by Public Oversight, Accounting and Auditing Standards Authority ("POA"). When financial assets are included in the financial statements for the first time, they are measured at fair value. Transaction costs are initially added to fair value or deducted from fair value at the initial measurement of financial assets other than the "Fair Value at Fair value Through Profit or Loss".

The Group recognizes a financial asset in the financial statements only when it becomes a party to the contractual terms of a financial instrument. During the initial recognition of a financial asset, the business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to gains, losses or profit shares that were previously recorded in the financial statements.

7.1 Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are financial assets that are managed within a business model other than the business model whose objective is achieved by holding contractual cashflows for collection and the business model whose objective is achieved by collecting and selling contractual cash flows. Also, in case that the contractual terms of financial assets do not give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount, such assets are those that are, obtained with the aim of providing profit from the short-term price or other factor fluctuations in the market or are part of a portfolio aiming to obtain short-term profit, regardless of the reason of acquisition. Financial assets at fair value through profit or loss are recorded at their fair value and as of record date they are valued at their fair values. Profits or losses caused by valuation are included in profit/loss accounts.

7.2 Financial assets at fair value through other comprehensive income:

A financial asset is classified as at fair value through other comprehensive income when the asset is managed within a business model whose objective is achieved by collecting contractual cash flows and selling the financial asset, as well as when the contractual terms of the financial asset give rise on specified dates to cash flows are solely payments of principal and profit share on the principal amount.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition costs that reflect the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with effective profit share method regarding the financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses," which is the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income, are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, or the impairment of the asset. "Unrealized gains and losses" are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. When these assets are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the income statement.

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Equity securities, which are classified as financial assets at fair value through other comprehensive income, are carried at fair value, in the case that the securities have a quoted market price in an active market and/or the fair values of the securities can be reliably measured. In contrary case, the securities are carried at cost, less provision for impairment. During initial recognition an entity can make an irrevocable election regarding the presentation of the subsequent changes in the fair value of the investment in an equity instrument, that is not held for trading purposes, in the other comprehensive income. In the case that the entity elects to present the changes as described, dividends arising from the investment is accounted in the financial statements as profit or loss.

7.3 Financial assets measured at amortized cost:

In the case that a financial asset is held within a business model whose objective is achieved both by collecting contractual cash flows and that the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and profit share on the principal amount, the financial asset is classified as financial asset measured at amortized cost.

Financial Assets Measured at Amortized Cost; are financial assets, other than loans and receivables, which are held for the purpose of custody until maturity, with conditions necessary for such assets to be held until contractual maturity met, including funding ability; and which have fixed or determinable payments and fixed maturities. Financial assets measured at amortized cost are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to Financial Assets measured at amortized cost is reflected in the income statement. As of the balance sheet date, the Bank does not have any financial assets to be held until maturity.

7.4 Derivative Financial Assets:

The major derivative instruments utilized by the Group are foreign currency swaps, cross currency swaps and currency forwards.

Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values.

Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, the positive fair value amounts are classified as the "Portion of Derivative Financial Assets Designated at Fair Value through Profit or Loss" or the "Portion of Derivative Financial Assets Designated at Fair Value through Other Comprehensive Income"; and the negative fair value amounts are classified as the "Portion of Derivative Financial Liabilities Designated at Fair Value through Profit or Loss" or the "Portion of Derivative Financial Liabilities Designated at Fair Value through Other Comprehensive Income". The fair value differences of derivative financial instruments of fair value through profit or loss derivative transactions are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions. The principles on accounting for derivative transactions for hedging purposes, are explained in Note VIII of Section Four. The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

7.5 Loans:

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Profit Share Rate (internal rate of return) Method".

As the Parent Banks's loans indexed below the amount of TL 40,829 were not able to pass the contractual cash flow test, these loans are recorded under the items which are "Fair Value Through Profit or Loss" account.

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8. Explanations on expected loss provisions

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Group has started to recognize provisions for classification of loans in accordance with the terms of TFRS 9 according to the "Regulation On The Procedures and Principles For Determining Loan Qualifications By Banks and Provisions To Be Set Aside" published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

9. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognized amounts and there is an intention to collect/pay the related financial assets and liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

10. Explanations on sale and repurchase agreements and lending of securities

Central Bank of the Republic of Turkey ("CBRT") made some changes on orders for open market transactions ("OMT") and prepared an additional frame contract for participation banks in order to present rent certificates to open market operations of CBRT in accordance with the principles of participation banks. According to this agreement; a new type of transaction was formed which enables participation banks to resell or repurchase rent certificates on their portfolio to CBRT when they are in need of funding or in attempt to evaluate the excess liquidity. In this content, initial OMT transaction was performed with CBRT on 14 June 2013 by selling rent certificates that are recognized in the assets of the Bank in return for conditional repurchasing. Beginning from this date, the Bank performs purchase tenders which are held by CBRT of which maturities are weekly; in return for Treasury rent certificates that are reported as assets in balance sheet in order to raise funds.

As of 31 December 2018, the Group has repurchasing agreements amounting to TL 188,003 (31 December 2017 - TL 750,524).

11. Explanations on assets held for sale and discontinued operations and related liabilities

As mandated by the Banking Act 5411 Article 57 "Banks cannot participate in commercial real-estate and commodity trade with the exception of real-estate and commodity based agreements within the scope of Capital Markets Act No. 2499, and precious metal trade as seen appropriate by the board, and cannot participate in partnerships with firms whose main business activity is commercial real-estate, with the exception of real-estate investment partnerships and companies that finance mortgaged residential estates. The rules and procedures regarding the sales of real-estate and commodities that were acquired due to receivables and debtors' obligations to the bank are determined by the board."

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Assets that meet the criteria for classification as assets held for sale are measured at the lower of the carrying amount of assets and fair value less any costs to be incurred for disposal. Assets held for sale are not amortized and presented in the financial statements separately. In order to classify an asset as held for sale, the sale should be highly probable and the asset (or disposal group) should be available for immediate sale in its present condition. Highly saleable condition requires a plan by the management regarding the sale of the asset (or the disposal group) together with an active program for the determination of buyers as well as for the completion of the plan. Also the asset (or the disposal group) should be actively in the market at a price consistent with its fair value. In addition, the sale is expected to be recognized as a completed sale within one year after the classification date and the necessary transactions and procedures to complete the plan should demonstrate the fact that there is remote possibility of making any significant changes in the plan or cancellation of the plan. Various events and conditions may extend the completion period of the disposal over one year. If such delay arises from any events and conditions beyond the control of the entity and there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or disposal group) can remain to be classified as assets (or disposal group) held for sale. Extension of the period necessary to complete the sale, does not avoid the classification of the related asset (or disposal group) to be classified as asset held for sale.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. Discontinued operations are presented separately in the income statement. The Parent Bank has no discontinued operations.

12. Explanations on goodwill and other intangible assets

Intangible assets are stated at cost adjusted for inflation until 31 December 2004, less provision for impairment, if any, and accumulated amortization and amortized with straight-line method.

The other intangible assets of the Group comprise mainly computer software. The useful lives of such assets acquired prior to 2004 have been determined as 5 years and for the year 2004 and forthcoming years, as 3 years.

There is no goodwill related to associates and subsidiaries.

13. Explanations on tangible assets

Fixed assets are stated at cost adjusted for inflation until 31 December 2004, less accumulated depreciation and provision for impairment, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The annual rates used for amortization are as follows:

Property	2%
Movables, Leased assets	%6.67 - %20

Depreciation is calculated on a pro-rata basis for the assets that have been placed in use for less than one year as of the balance sheet date. Leasehold improvements are depreciated over the term of the lease agreements by straight-line method.

If the recoverable amount (the higher of value in use and fair value) of a tangible asset is less than its carrying value, impairment loss is provided and the carrying value is written down to its recoverable amount.

Gains or losses resulting from disposals of the fixed assets are recorded in the income statement as the difference between the net proceeds and net book value of the asset.

Expenses for repairs are capitalized if the expenditure increases economic life of the asset; other repair costs are expensed.

The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalized on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product or to decrease the costs.

Property held for long-term rental yields and/or capital appreciation is classified as investment property. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties.

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14. Explanations on Leasing Transactions

Bank as a lessee

Assets acquired under finance lease contracts are recorded both as an asset and a liability at the beginning date of the lease. The basis for the determination of these amounts is the lower of fair value of the leased asset or the present value of the lease payments. The direct costs incurred during a finance lease transaction are capitalized as additions to the cost of the leased asset. Lease payments include the financing costs incurred due to the leasing transaction and the principal amount of the leased asset for the current period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the leased assets and if a diminution in recoverable value of the leased asset is identified, a provision for impairment is recognized.

The Group records rent payments made in the context of operating leases in equal amounts during the lease term.

Bank as a lessor

The Parent Bank, as a participation bank, acts as a lessor in finance leasing transactions. 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.

15. Explanations on provisions and contingent liabilities

Provisions and contingent liabilities are accounted for in accordance with "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("TAS 37").

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 Bank recognizes provisions for obligations which arose from prior periods in current financial year, only if, the possibility of realization is high and a reliable estimation can be made.

Provisions are recognized for obligations which arose from prior periods in current financial year, only if, the possibility of realization is high and a reliable estimation can be made. A provision is provided if liabilities have been originated as a result of past events in the period they arise, if it is probable that the liability will be settled and a reliable estimate for the liability amount can be made.

When a reliable estimate of the amount of the obligation cannot be made or it is not probable that an outflow of resources will be required to settle the obligation, the obligation is considered as a "Contingent" liability and is disclosed in the related notes to the financial statements.

16. Explanations on liabilities relating to employee benefits

16.1 Defined benefit plans:

In accordance with existing social legislation, the Group is required to make severance pay to each employee who has completed over one year of service with the Group and who retires or quits the employment to receive old age or disability benefits, to fulfil the compulsory military service, because of the marriage (for females) or because of the other compulsive reasons as defined in the laws and whose employment is terminated due to reasons other than resignation or misconduct.

The retirement pay provision recognized in the accompanying financial statements, is calculated based on "Turkish Accounting Standard on Employee Benefits" ("TAS 19"), and these liabilities are calculated by an independent actuary firm. Group is accounted all actuarial profit and loss under Statement of other Comprehensive Income.

The Group's employees are not members of any pension fund, foundations, union or other similar entities.

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16.2 Defined contribution plans:

The Group pays defined contribution plans to publicly administered Social Security Funds for its employees as mandated by the Social Security Association. The Bank has no further payment obligations other than this contribution share. The contributions are recognized as employee benefit expense when they are due.

16.3 Short term benefits to employees:

"In accordance with "TAS 19", vacation pay liabilities are defined as "Short Term Benefits to Employees" and accrued as earned.

Group management calculates bonus accrual if it foresees that the budgeted year-end figures approved by the Board of Directors are attainable.

17. Explanations on taxation

Current tax

As per the terms of the provisional article 10 added to the Law No. 5520 by the Article 91 of the Law No. 7061, it was established that the rate of 20%, as disclosed in the first paragraph of the Article 32 of the Corporate Tax Law No. 5520, shall be applied as 22% over the corporation income for the tax periods of the years 2018, 2019, 2020 (and for entities that are appointed with special accounting period, for the accounting periods beginning within the relevant year). Council of Ministers is entitled to lower the rate of 22% as disclosed in the first paragraph to a limit of 20%.

Under this scope, corporate tax with the rate of 22% shall be calculated over the corporate income of the corporate taxpayers for the accounting periods of 2018, 2019 and 2020. In addition, as per provisions of the Income Tax Law, advance tax with the rate of 22% shall be paid by the taxpayers in the aforementioned periods in order to be offset from the corporate tax for the aforementioned tax periods.

The corporate tax rate will be applied as 22% for the years 2018, 2019 and 2020. This rate is applied on taxable income which is calculated by adjusting the income before tax for certain disallowable expenses, tax exempt income and other allowances. No further tax is applicable unless the profit is distributed. According to the tax legislations, advance tax amount shall also be calculated using a rate of 20% for each quarter over tax base and shall be paid, then the advance taxes paid within the year shall be offset from the corporate tax calculated over the yearly corporate tax return for that year.

Withholding taxes is not applied to dividends distributed to companies resident in Turkey or companies who earn income in Turkey through their resident representatives in Turkey. With the Council of Minister's decision numbered 2009/14593 and 2009/14594 which are published in official gazette numbered 27130 and dated 3 February 2009, some deduction rates in 15th and 30th articles of the corporate tax law numbered 5520 were re-determined. In accordance with this, dividends distributed to companies other than companies resident in Turkey or companies who earn income in Turkey through their resident representatives in Turkey are subject to 15% withholding taxes. Double tax treaty agreements are also taken into consideration during the application of withholding taxes on dividends distributed to real persons and to foreign based taxpayers. Addition of profit to share capital is not considered as dividend distributed therefore no withholding taxes is applied.

With the change in legislation in years 2018-2019-2020's each quarter advance tax amount is calculated using a rate of 22% over tax base and Corporate tax returns are filed by the fourteenth day of the second month following the balance sheet date and taxes is paid by the seventeenth day of the second until evening. Paid advance taxes are paid during the year are belong to the current year, then the paid advance taxes are deducted from the corporate tax liability that is calculated for the year. If the balance of paid advance taxes remains after deduction of paid advance taxes, it can be paid back in cash or it can be deducted from financial loans to the government.

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For the purpose of issuance of certificate of leasing immovables to resource institutions, with the sale of asset leasing companies, the scope of Financial Leasing, Factoring and Financing Companies Law No.6361, dated 21 November 2012 in order to lease it back and in case of taking back at the end of the contract, with the sale of financial leasing companies and asset leasing by asset leasing companies, for gains from the sale of the immovable property inherited from the institution applies this rate as 100% and for the immovable is not compulsory to be in assets at least for a period of two years. But the mentioned immovable's; except in case of failure to fulfill the obligations arising from the source institution, the lesser or leasing agreement, immovable in question by the asset leasing company, in case of selling a third person or institutions, these immovable's with the carrying value before its transfer to resource institution or asset leasing in lesser or asset leasing company, in mentioned institutions taking into consideration the total amount of depreciation is taxable for corporation engaged in the sale.

Corporate tax returns are filed by the twenty fifth day of the fourth month following the balance sheet date and taxes is paid in one instalment by the end of that month.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. However, losses cannot be carried back to offset profits from previous periods. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

In Turkey, there is no procedure for a final and definite agreement on tax assessments.

As of 31 December 2018, the tax rates applied in foreign countries where the Group operates is as follow:

Institutions located in Germany (legal or business center located in Germany) are subject to corporate tax in Germany through all their income. Regardless of whether or not it is distributed, a corporate tax of 15% is calculated over all earnings. The effective corporate tax rate is 15,825% as 5,5% solidarity tax is applied over the calculated corporate tax.. In addition, commercial profit tax is applied on the basis of local administrations. This tax is approximately 16%, and all tax types (corporate tax, solidarity tax and commercial earnings tax) are taken into account, taking into account a tax burden of approximately 32%.

Deferred Tax

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 "expected loan loss for 12 months" and lifetime expected loan loss" which is significant increase in credit risk after initial recognition that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis. The tax rate used in the calculation of deferred tax assets and liabilities is 22% over the temporary timing differences expected to reverse in 2018, 2019 and 2020, and 20% over the temporary timing differences expected to reverse after 2021 (2017: 20%-22%).

18. Additional explanations on borrowings

Borrowings other than funds collected are measured at amortized cost using the internal rate of return method after the initial recognition. The Group does not apply hedging techniques on related borrowings.

The Group has not issued convertible bonds.

19. Explanations on share certificates issued

There is no significant amount of transaction costs on Group about share certificates.

20. Explanations on bill guarantees and acceptances

Bill guarantees and acceptances are realized simultaneously with the payment dates of the customers and they are presented as commitments in off-balance sheet accounts.

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21. Explanations on government grants

There are no government grants received by the Group.

22. Explanations on segment reporting

The Group operates in three main segments; Retail and Enterprise Banking; Commercial Banking; Corporate and International Banking, Banking. Each segment operates with unique products, and the operational results are followed based on these segments.

Segment reporting is disclosed in Section Four, Note 10.

23. Explanations on Prior Period Accounting Policies Not Valid For The Current Period

TFRS 9 Financial Instruments" standard came into effect to replace "TAS 39 Financial Instruments: Recognition and Measurement" as of 1 January 2018. Accounting policies no longer applicable after the transition of TFRS 9 are given below:

The Group categorized its financial assets as "Fair value through profit/loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity" in prior periods.

23.1 Financial assets at fair value through profit and loss

There are two sub-categories of this category that "Financial assets held for trading" and "Financial assets at fair value through profit and loss".

Financial assets held for trading are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are financial assets included in a portfolio with a pattern of short-term profit taking.

Financial Assets Held for Trading are presented in the balance sheet with their fair values and are measured at fair values after the initial recognition. All gains and losses arising from valuations of trading financial assets are reflected in the income statement.

The Parent Bank does not have any financial assets that are classified as "Financial assets at fair value through profit or loss" other than those held for trading purposes.

23.2 Financial Assets Available For Sale

Available-for-sale financial assets are initially recognized at fair value, which reflects their acquisition cost and include transaction costs. Non-quoted equity instruments classified as available-for-sale financial assets are recognized initially at cost, if any.

Discounts and premiums of available-for-sale financial assets are recognized as profit share income in the income statement considering the internal rate of return. Profit share losses of financial assets available for sale are recognized in profit / loss and the market value differences are recorded in on "Marketable Securities Valuation Difference" account. When the available-for-sale financial assets are disposed of, fair value differences accumulated in equity until that time are reflected in the income statement.

23.3 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market and which are designated for trading, are carried at fair value through profit or loss, or are designated as available-for-sale financial assets. The Group recognizes the initial recognition of loans and receivables at their acquisition cost which reflects the fair value, and is subsequently measured at amortized cost using the internal rate of return method. And the fees, transaction costs and other expenses paid in connection with the assets received as collateral for these transactions are not recognized as part of the transaction cost and reflected directly to the expense accounts.

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23.4 Financial assets held to maturity:

Held-to-maturity financial assets; The Group's financial assets, other than loans and receivables, which have fixed maturity and fixed maturity with fixed or determinable payments provided that the maturity. Held-to-maturity financial assets are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to held-to-maturity financial assets is reflected in the income statement.

23.5 Explanations on impairment of financial assets

Whether there is objective evidence that a financial asset or group of financial assets is impaired is assessed at each balance sheet date. In the case of an indication of such type, the provision for impairment is set out on the basis of the classes of financial assets as described below.

Loans and receivables:

The Parent Bank, if there is evidence that loans cannot be collected, according to the regulation "Principles and Procedures for the Determination of the Qualifications of Loans and Other Receivables by Banks and Provisions to be Reserved" published in the Official Gazette No. 26333 dated November 1, 2006 classifies in group credits III., IV., V and reserves special provisions for these amounts. The Bank may allocate special provisions above the minimum rates stipulated in the group to which the financial position and / or the ability to pay is weak.

The collections made in accordance with the provisions in the current period related to the loans in question are deducted from the "Loans and Other Receivables Provision" account in the income statement, the principal collections made in accordance with the loans which were set aside or deleted from the assets in previous periods are recorded in the "Other Operating Income" account.

Financial Assets Held-to-Maturity:

In the event that there is an objective indicator that an impairment loss occurred in held-to-maturity financial assets, the amount of the related loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original profit share rate of the financial asset; a provision for impairment is allocated and the provisioned provision is associated with expense accounts.

Financial Assets Available For Sale

In the event that there is an objective indication that the decrease in the fair value of a financial asset that is directly accounted in equity is impaired, the total loss recognized directly in equity is removed from equity and recognized in profit or loss.

Impairment losses recognized in profit or loss relating to investments in equity instruments classified as available for sale are not reversed by profit or loss. In the event that there is an objective indicator that an impairment loss is recognized in respect of equity instruments that are not registered at the fair value due to the fact that their fair value cannot be determined reliably, the amount of impairment loss related to a similar financial asset of the expected future cash flows the present value of the asset calculated by discounting on the market rate of return is measured as the difference between the carrying amount and the carrying amount of the asset. Such impairment losses cannot be reversed.

24. Explanations on other matters

None.

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SECTION FOUR

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT

1. Explanations on consolidated shareholders' equity

Shareholders' equity amount and capital adequacy standard ratio are calculated within the framework of "Regulation Regarding Equities of Banks" and "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy". As of 31 December 2018, the shareholders' equity of the Group is TL 7,389,107 (31 December 2017: TL 5,825,898) and the capital adequacy standard ratio is 17.22% (31 December 2017: 17.32%).

1.1. Components of consolidated shareholders' equity:

Current Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	3,500,000	
Share Premium	24,208	
Reserves	1,110,535	
Other Comprehensive Income according to TAS	-	
Profit	808,383	
Current Period Profit	809,543	
Prior Period Profit	(1,160)	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Minority Interests	25,112	
Common Equity Tier I Capital Before Deductions	5,468,238	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	40,313	
Leasehold Improvements on Operational Leases (-)	54,010	
Goodwill Netted with Deferred Tax Liabilities	-	-
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	193,471	-
Net Deferred Tax Asset/Liability (-)	-	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	7,583	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	13,296	
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	2,678	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	
Mortgage Servicing Rights not deducted (-)	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	
Other items to be Defined by the BRSA (-)	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	
Total Deductions from Common Equity Tier I Capital	311,351	
Total Common Equity Tier I Capital	5,156,887	

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Current Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	
Other items to be defined by the BRSA (-)	-	
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
Total Deductions from Additional Tier I Capital	-	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	5,156,887	
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1,847,727	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	468,639	
Total Deductions from Tier II Capital	2,316,366	
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	
Other items to be defined by the BRSA (-)	-	
Total Deductions from Tier II Capital	-	
Total Tier II Capital	2,316,366	
Total Equity (Total Tier I and Tier II Capital)	7,473,253	

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Current Period	Amount	Amount as per the regulation before 1/1/2014 (*)
Total Tier I Capital and Tier II Capital (Total Equity)		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	
Other items to be Defined by the BRSA (-)	84,146	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital)		
During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	7,389,107	
Total Risk Weighted Assets	42,921,666	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	12.01	
Tier I Capital Ratio (%)	12.01	
Capital Adequacy Ratio (%)	17.22	
BUFFERS		
Bank-specific total CET1 Capital Ratio	1.88	
Capital Conservation Buffer Ratio (%)	1.88	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	6.01	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	468,639	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	468,639	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)	-	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	3,100,000	
Share Premium	24,208	
Reserves	927,236	
Other Comprehensive Income according to TAS	12,609	
Profit	637,291	
Current Period Profit	628,855	
Prior Period Profit	8,436	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Minority Shares	23,054	
Common Equity Tier I Capital Before Deductions	4,724,398	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	110,905	
Leasehold Improvements on Operational Leases (-)	47,518	
Goodwill Netted with Deferred Tax Liabilities		
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	135,173	168,966
Net Deferred Tax Asset/Liability (-)	-	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	2,678	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	
Mortgage Servicing Rights not deducted (-)	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	
Other items to be Defined by the BRSA (-)	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	
Total Deductions from Common Equity Tier I Capital	296,274	
Total Common Equity Tier I Capital	4,428,124	

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	
Other items to be defined by the BRSA (-)	-	
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	33,793	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
Total Deductions from Additional Tier I Capital	33,793	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	4,394,331	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	1,322,272	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	-	
Total Deductions from Tier II Capital	280,412	
Deductions from Tier II Capital	1,602,684	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)		
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	
Other items to be defined by the BRSA (-)	-	
Total Deductions from Tier II Capital	-	
Total Additional Tier I Capital	-	
Total Tier II Capital	1,602,684	
Total Equity (Total Tier I and Tier II Capital)	5,997,015	

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Amount	Amount as per the regulation before 1/1/2014 ^(*)
Total Tier I Capital and Tier II Capital (Total Equity)		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	
Other items to be Defined by the BRSA (-)	171,117	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital)		
During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	5,825,898	
Total Risk Weighted Assets	33,628,878	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	13.17	
Tier I Capital Ratio (%)	13.07	
Capital Adequacy Ratio (%)	17.32	
BUFFERS		
Bank-specific total CET1 Capital Ratio	1.25	
Capital Conservation Buffer Ratio (%)	1.25	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	7.07	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	280,412	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	280,412	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.2. Approaches for assessment of adequacy of internal capital requirements for current and future activities

Internal evaluation process is established for continuously evaluating and maintaining the types, components and distribution of the adequate level of capital in order to provide for various risks exposed to or to be exposed to. The final purpose of the evaluation process of the internal capital requirement, is to define and evaluate all the risks included or not in the calculations of the legal capital requirements, within the frame of the activities of the bank, and to provide the availability of adequate capital in order to cover for these risks and the application of the risk management techniques. The results obtained in this evaluation process by taking into consideration, the Bank's growth strategy, assets-liabilities structure, funding sources, liquidity position, foreign currency position, the effects of the price and market fluctuations on the capital, which are among the variables of the economy, aim to provide the continuity of the mentioned capital adequacy level at the determined level in compliance with the Bank's risk profile and risk appetite.

Within this scope, capital structure is reviewed as based on the frame of the activities and risks exposed to, and the internal capital requirement, probable to occur within the direction of targets and strategies of the Bank is evaluated. This evaluation includes interest rate risk, concentration risk, liquidation risk, reputation risk, residual risk, country risk and strategic risk arising of the banking books as well as market, credit and operational risks.

Capital requirement internal evaluation is evaluated as a developing process and plans are developed by determining areas of development for the future period.

2.Explanations on Consolidated Credit Risk:

Credit risk means the risks and damages to arise as a result of partial or complete non-fulfillment of the obligations timely by non-compliance of the counter party with the requirements of the agreement concluded with the Group.

With regards to the credit risk, the debtor or the group of debtors is subjected to risk limitation. The upper limit of the rate of the credits granted to the companies in one sector to the total credits is determined annually by the Board of Directors and is updated as required.

The credit risk which the Group is subjected to outside of Turkey is followed up by the Board of Directors within the frame of the determined limits on the basis of countries and regions. Within this scope, the total risk which the Group had taken in the foreign country or region, the total of the credit risk taken by the banks residing abroad and/or their branches in Turkey, the total risks of the credits generated to the people residing abroad or with foreign nationality, the risk total taken over the corporate customers and/or banks to which the partners residing in Turkey but of which the principal shareholder or shareholders reside in another country, had given guarantee and in required cases, the risk total taken by the Group in Turkey should be followed up.

The risks and limits arising of the treasury transactions and customer based commercial transactions are followed up daily. Moreover, the control of the limits allocated as based on the degrees of the correspondent banks and the maximum risk that the Bank can take within its equities are also performed daily. The risk limits relevant to the transactions performed daily are determined and the risk intensity relevant to off the balance sheet transactions are being followed up.

In accordance with Regulation on Procedures and Principles for Classification of Loans and Provisions to be Reserved, the credit worthiness of borrowers of loans and other receivables are monitored at regular intervals, in case of early detection of possible repayment problems, credit limits are re-determined and additional collateral is taken, in this way it is aimed to prevent the loss of the Group. Account status documents received for the loans are taken as required by the relevant legislation. The collaterals are taken within the framework of the related legislation, taking into account the allocation decision taken by the credit committee in view of the nature of the loan and the financial structure of the company.

The positions in the form of futures, options agreements and similar agreements are not held.

Indemnified non-cash loans are subject to the same risk weight with the overdue loans in compliance with the Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans. The re-scheduled and re-structured loans are followed up in compliance with the methods determined in the relevant legislation.

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Foreign trade financing and inter-banks loan transactions are performed by a wide network of correspondents and the country risks, limits, correspondent risks and limits are regularly evaluated within this scope.

There is no important credit risk concentration when evaluated together with the financial activities of the other financial institutes.

The Bank's top 100 and 200 cash loan customers represent 26% and 33% of the total cash loan portfolio, respectively.

The Bank's top 100 and 200 non-cash loan customers represent 40% and 48% of the total non-cash loan portfolio, respectively.

The Bank's top 100 and 200 cash and non-cash loan customers represent 25% and 31% of the total cash and non-cash loan portfolio, respectively.

Exposure Categories (Current Period)	Period End Risk Amount ^(*)	Average Risk Amount ^(**)
Conditional and unconditional exposures to central governments or central banks	14,541,105	11,099,179
Conditional and unconditional exposures to regional governments or local authorities	-	-
Conditional and unconditional exposures to administrative bodies and noncommercial undertakings	-	-
Conditional and unconditional exposures to multilateral development banks	-	-
Conditional and unconditional exposures to international organizations	-	-
Conditional and unconditional exposures to banks and brokerage houses	11,778,118	8,846,417
Conditional and unconditional exposures to corporates	13,781,704	13,510,514
Conditional and unconditional retail exposures	8,545,598	8,809,967
Conditional and unconditional exposures secured by real estate property	15,069,170	15,366,306
Past due items	148,718	119,924
Items in regulatory high-risk categories	142,541	59,865
Exposures in the form of bonds secured by mortgages	-	-
Securitization positions	-	-
Short term exposures to banks, brokerage houses and corporates	-	-
Exposures in the form of collective investment undertakings	110,567	78,440
Equity share investments	-	-
Other items	6,548,071	4,638,583
Total	70,665,592	62,529,195

^(*) Includes total risk amount before the effect of credit risk mitigation but after credit conversions.

^(**) Average risk amounts are the arithmetical average of the amounts in monthly reports prepared starting from the date of publication of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

Exposure Categories (Prior Period)	Period End Risk Amount ^(*)	Period End Risk Amount ^(**)
Conditional and unconditional exposures to central governments or central banks	11,834,234	10,304,922
Conditional and unconditional exposures to regional governments or local authorities	-	-
Conditional and unconditional exposures to administrative bodies and noncommercial undertakings	-	-
Conditional and unconditional exposures to multilateral development banks	-	-
Conditional and unconditional exposures to international organizations	-	-
Conditional and unconditional exposures to banks and brokerage houses	6,104,252	6,356,336
Conditional and unconditional exposures to corporates	10,892,833	10,166,377
Conditional and unconditional retail exposures	7,876,889	6,909,911
Conditional and unconditional exposures secured by real estate property	14,381,976	13,373,928
Past due items	18,320	64,302
Items in regulatory high-risk categories	7,299	21,978
Exposures in the form of bonds secured by mortgages	-	-
Securitization positions	-	-
Short term exposures to banks, brokerage houses and corporates	-	-
Exposures in the form of collective investment undertakings	163,734	103,723
Stock Certificate Investments	-	-
Other items	3,666,991	3,489,746
Total	54,946,528	50,791,223

^(*) Includes total risk amount before the effect of credit risk mitigation but after credit conversions.

^(**) Average risk amounts are the arithmetical average of the amounts in monthly reports according to the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Bank.

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

2.1. Profile of significant exposures in major regions:

	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due items	Items in regulatory high-risk categories	Exposures in the form of collective investment undertakings	Other	Total
Current Period ^(*)										
Domestic	14,535,871	6,950,787	12,625,853	8,528,354	14,900,002	148,049	137,339	81,584	-	57,907,839
European Union (EU)										
Countries	-	1,032,719	1,063,763	7,514	28,575	-	5,202	-	-	2,137,773
OECD Countries ^(**)	-	1,454,388	1,067	183	6,246	-	-	-	-	1,461,884
Off-Shore Banking Regions	-	63,003	25,733	4,044	75,875	-	-	-	-	168,655
USA, Canada	-	1,414,111	200	70	1,639	-	-	-	-	1,416,020
Other Countries	5,234	863,110	65,088	5,433	56,833	669	-	28,983	-	1,025,350
Associates, Subsidiaries and Joint - Ventures	-	-	-	-	-	-	-	-	522,950	522,950
Unallocated	-	-	-	-	-	-	-	-	-	-
Assets/Liabilities ^(***)	-	-	-	-	-	-	-	-	6,025,121	6,025,121
Total	14,541,105	11,778,118	13,781,704	8,545,598	15,069,170	148,718	142,541	110,567	6,548,071	70,665,592

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

^(**) Includes OECD countries other than EU countries, USA and Canada.

^(***) Includes assets and liability items that can not be allocated on a consistent basis

	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due items	Items in regulatory high-risk categories	Exposures in the form of collective investment undertakings	Other	Total
Prior Period ^(*)										
Domestic	11,834,234	3,881,462	10,123,609	7,848,907	14,287,876	18,208	7,299	145,383	-	48,146,978
European Union (EU)										
Countries	-	627,212	718,969	2,420	12,431	109	-	-	-	1,361,141
OECD Countries ^(**)	-	541,635	840	344	976	-	-	-	-	543,795
Off-Shore Banking Regions	-	275,384	-	120	831	-	-	3,824	-	280,159
USA, Canada	-	330,188	-	92	1,162	1	-	-	-	331,443
Other Countries	-	448,371	49,415	25,006	78,700	2	-	14,527	-	616,021
Associates, Subsidiaries and Joint - Ventures	-	-	-	-	-	-	-	-	377,647	377,647
Unallocated	-	-	-	-	-	-	-	-	-	-
Assets/Liabilities ^(***)	-	-	-	-	-	-	-	-	3,289,344	3,289,344
Total	11,834,234	6,104,252	10,892,833	7,876,889	14,381,976	18,320	7,299	163,734	3,666,991	54,946,528

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

^(**) Includes OECD countries other than EU countries, USA and Canada.

^(***) Includes assets and liability items that can not be allocated on a consistent basis.

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

2.2. Risk profile by sectors or counterparties

	Conditional and unconditional receivables from central governments or banks	Conditional and unconditional receivables from regional governments or local banks	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional receivables from corporates	Conditional and unconditional receivables from retail receivables	Conditional and unconditional receivables secured by Mortgages	Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralized by mortgages	Securitization positions	Short-term receivables from banks, brokerage houses and corporates	Investments similar to collective investment funds	Other receivables	TL	FC	Total
Current Period ^(*)	-	-	-	-	-	-	-	-	-	887	165	-	-	-	-	-	369,171	92,597	461,768
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	514	165	-	-	-	-	-	271,617	78,898	350,515
Forestry	-	-	-	-	-	-	-	-	-	373	-	-	-	-	-	-	96,874	13,690	110,564
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	680	-	689
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-	-	-	-	27,184	6,139	-	-	-	-	-	4,680,606	6,219,117	10,899,723
Production	-	-	-	-	-	-	-	-	-	4,991	1,496	-	-	-	-	-	934,316	637,646	1,571,962
Electricity, Gas and Water	-	-	-	-	-	-	-	-	-	21,775	3,778	-	-	-	-	-	3,481,545	2,983,662	6,465,207
Construction	-	-	-	-	-	-	-	-	-	418	865	-	-	-	-	-	264,745	2,597,809	2,862,554
Services	-	-	-	-	-	-	-	-	-	33,537	13,240	-	-	-	-	-	4,661,653	2,491,670	7,153,323
Wholesale and Retail Trade	-	-	-	-	-	-	-	-	-	64,328	36,570	-	-	-	-	-	10,598,950	274,081,111	38,007,061
Accommodation and Dining	-	-	-	-	-	-	-	-	-	43,163	33,816	-	-	-	-	-	4,520,753	1,959,386	6,480,139
Transportation and Telecom.	-	-	-	-	-	-	-	-	-	5,366	1,168	-	-	-	-	-	209,585	224,008	433,593
Financial Institutions	-	-	-	-	-	-	-	-	-	10,364	343	-	-	-	-	-	730,921	940,941	1,671,862
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	3,855,940	23,643,315	27,499,255
Professional Services	-	-	-	-	-	-	-	-	-	1,111	302	-	-	-	-	-	381,393	320,654	702,047
Educational Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	611	-	611
Health and Social Services	-	-	-	-	-	-	-	-	-	42	-	-	-	-	-	-	193,728	102,401	296,129
Others	-	-	-	-	-	-	-	-	-	4,281	941	-	-	-	-	-	706,020	217,405	923,425
Total	-	-	-	-	-	-	-	-	-	22,782	86,427	-	-	-	-	-	8,912,865	5,230,852	14,143,717
	-	-	-	-	-	-	-	-	-	148,718	142,541	-	-	-	-	-	29,223,245	41,442,347	70,665,592

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period ^(a)	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional governments or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks	Conditional and unconditional receivables from brokerage houses	Conditional and unconditional receivables from corporates	Conditional and unconditional receivables from retail	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BRSR	Securities collateralized by mortgages	Securitization positions	Short-term receivables from banks, brokerage houses and corporates	Investments similar to collective investment funds	Other receivables	TRY	FC	Total
Agriculture	-	-	-	-	-	-	-	26,832	67,001	92,983	189	129	-	-	-	-	-	136,914	50,220	187,134
Farming and Stockbreeding	-	-	-	-	-	-	-	16,351	31,712	44,691	66	-	-	-	-	-	-	60,200	32,620	92,820
Forestry	-	-	-	-	-	-	-	10,457	32,412	47,808	123	129	-	-	-	-	-	73,367	17,562	90,929
Fishery	-	-	-	-	-	-	-	24	2,877	484	-	-	-	-	-	-	-	3,347	38	3,385
Manufacturing	-	-	-	-	-	-	-	1,361,540	918,037	1,256,538	4,074	3,932	-	-	-	-	-	2,031,799	1,512,322	3,544,121
Mining and Quarrying	-	-	-	-	-	-	-	254,543	169,297	166,850	629	125	-	-	-	-	-	345,072	246,372	591,444
Production	-	-	-	-	-	-	-	752,979	682,853	1,036,530	3,444	3,807	-	-	-	-	-	1,404,541	107,507	2,479,613
Electricity, Gas and Water	-	-	-	-	-	-	-	354,018	65,887	531,58	1	-	-	-	-	-	-	282,186	190,878	473,064
Construction	-	-	-	-	-	-	-	1,369,793	893,329	879,668	5,128	556	-	-	-	-	-	2,375,625	772,849	3,148,474
Services	11,834,234	-	-	-	-	-	-	2,202,692	1,406,385	1,910,385	5,387	1,716	-	-	-	163,734	-	7,503,803	16,124,982	23,628,785
Wholesale and Retail Trade	-	-	-	-	-	-	-	1,136,399	863,704	1,318,295	4,253	1,463	-	-	-	-	-	2,531,426	792,688	3,324,114
Accommodation and Dining	-	-	-	-	-	-	-	65,364	54,671	93,219	189	5	-	-	-	-	-	145,646	67,802	213,448
Transportation and Telecom.	-	-	-	-	-	-	-	687,406	214,529	182,450	626	89	-	-	-	-	-	612,783	472,317	1,085,100
Financial Institutions	11,834,234	-	-	-	-	-	-	1,032	1,331	1,283	-	-	-	-	-	163,734	-	3,502,934	14,602,932	18,105,866
Real Estate and Rental Services	-	-	-	-	-	-	-	95,046	32,815	62,258	1	79	-	-	-	-	-	121,798	68,401	190,199
Professional Services	-	-	-	-	-	-	-	311	150	624	-	-	-	-	-	-	-	1,072	13	1,085
Educational Services	-	-	-	-	-	-	-	20,784	22,293	30,285	16	52	-	-	-	-	-	69,654	3,776	73,430
Health and Social Services	-	-	-	-	-	-	-	196,350	216,892	221,971	302	28	-	-	-	-	-	518,490	117,053	635,543
Others	-	-	-	-	-	-	-	5,931,976	4,592,137	10,242,402	3,542	966	-	-	-	-	-	3,666,991	21,556,656	2,881,358
Total	11,834,234	-	-	-	-	-	-	10,892,833	7,876,889	14,381,976	18,320	7,299	-	-	-	163,734	3,666,991	33,604,797	21,341,731	54,946,528

^(a) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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2.3. Analysis of maturity-bearing exposures according to remaining maturities:

Exposure Categories ^(*) – Current Period	Term to Maturity				
	1 Month	1–3 Months	3–6 Months	6–12 Months	Over 1 Year
Conditional and unconditional exposures to central governments or central banks	194,001	365,306	155,773	-	5,351,089
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	-	-	-	-	-
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
Conditional and unconditional exposures to international organizations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	2,048,784	1,561,667	792,936	303,169	174,186
Conditional and unconditional exposures to corporates	3,841,421	537,376	1,446,766	1,408,712	6,522,535
Conditional and unconditional retail exposures	1,375,118	704,468	1,080,494	1,723,192	3,520,864
Conditional and unconditional exposures secured by real estate property	832,833	568,743	1,188,187	2,224,151	10,255,256
Past due exposures	-	-	-	-	-
Items in regulatory high-risk categories	100,306	1,498	1,635	2,745	36,357
Mortgage-backed securities	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	11,227	16,545	82,795
Stock Investments	-	-	-	-	-
Other Items	-	-	-	-	-
Total	8,392,463	3,739,058	4,677,018	5,678,514	25,943,082

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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Exposure Categories ^(*) Prior Period	Term to Maturity				
	1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year
Conditional and unconditional exposures to central governments or central banks	733,495	-	-	-	3,976,618
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	-	-	-	-	-
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
Conditional and unconditional exposures to international organizations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	406,051	462,087	449,180	154,059	1,188,461
Conditional and unconditional exposures to corporates	2,715,591	207,722	366,131	910,098	6,660,767
Conditional and unconditional retail exposures	1,539,990	204,543	381,882	690,451	4,879,665
Conditional and unconditional exposures secured by real estate property	2,344,188	139,328	441,883	957,315	10,499,262
Past due exposures	-	-	-	-	-
Items in regulatory high-risk categories	125	2,418	40	460	4,256
Mortgage-backed securities	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	163,734	-	-	-	-
Stock Investments	-	-	-	-	-
Other Items	-	-	-	-	-
Total	7,903,174	1,016,098	1,639,116	2,712,383	27,209,029

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions

2.4. Exposure Categories

In compliance with the 7th Article of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks, determination of the risk weights is performed based on the credit ratings provided by the rating companies.

The ratings of an international credit rating agency are used for the Banks and Corporate Receivables asset class, which is limited to the receivables that are resident abroad. Receivables from banks are analyzed in two separate receivable classes according to their original maturity. If the original maturity is 3 months or less, they are assigned to "Short Term Receivables from Banks and Intermediary Institutions", if it is more than 3 months it is assigned to "Receivables from Banks and Intermediary Institutions". The banks and institutions established within the country are evaluated as unrated.

The ratings given by the international credit rating agency are used to determine the risk weighted asset class. The ratings of the credit rating agency are being used for Banks and Corporate Receivables asset class limited to the counterparties which are resident abroad.

"Credit Quality Levels" corresponding to the ratings of the credit rating institution are presented in the following table.

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		Exposure Categories			
		Exposures from Banks and Brokerage Houses			
Credit Quality Grade	Fitch Risk Rating	Exposures to Central Governments or Central Banks	Exposures with Remaining Maturities Less Than 3 Months	Exposures with Remaining Maturities More Than 3 Months	Exposures to Corporates
1	AAA	0%	20%	20%	20%
	AA+				
	AA				
	AA-				
2	A+	20%	20%	50%	50%
	A				
	A-				
3	BBB+	50%	20%	50%	100%
	BBB				
	BBB-				
4	BB+	100%	50%	100%	100%
	BB				
	BB-				
5	B+	100%	50%	100%	150%
	B				
	B-				
6	CCC+	150%	150%	150%	150%
	CCC				
	CCC-				
	CC				
	C				
	D				
Unrated	Unrated	100%	20% ^(*)	50% ^(*)	100%

^(*) This is used under the condition of not being less than the implemented one in the centralized management of the Bank's located country.

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2.5. Credit risk using the standard approach:

2.5.1. Credit risk exposed and credit risk mitigation effects:

Risk Classes	Receivable before CCF and CRM		Receivable post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Receivables from central governments and Central Banks	14,347,104	-	17,049,935	-	2,760,992	16
2 Receivables from regional and local government	-	-	-	-	-	-
3 Receivables from administrative bodies and non-commercial entities	-	-	-	-	-	-
4 Receivables from multilateral development banks	-	-	-	-	-	-
5 Receivables from international organizations	-	-	-	-	-	-
6 Receivables from banks and brokerage houses	11,351,383	1,121,250	11,351,383	262,204	5,755,652	50
7 Receivables from corporate	10,616,113	6,517,105	9,608,286	3,150,548	12,562,741	98
8 Retail receivables	6,615,373	5,992,437	5,720,867	1,920,640	5,608,992	73
9 Receivables secured by residential property	6,402,362	698,200	6,245,509	299,413	2,276,070	35
10 Receivables secured by commercial property	7,734,732	1,323,497	7,144,899	628,678	4,920,010	63
11 Non-performing receivables	148,718	-	129,395	-	86,495	67
12 Receivables in high-risk categories	142,541	-	108,052	-	161,947	150
13 Mortgage-backed securities	-	-	-	-	-	-
14 Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-
15 Investments similar to collective investment funds	110,567	-	110,567	-	59,345	54
16 Other receivables	6,548,071	-	6,548,071	-	3,209,168	49
17 Equity share investments	-	-	-	-	-	-
18 Total	64,016,964	15,652,489	64,016,964	6,261,483	37,401,412	655

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2.5.2. Credit risk exposed and credit risk mitigation effects:

	Risk Classes / Risk Weights *	0%	10%	20%	50%	75%	100%	150%	200%	Others *	Total risk amount (post-CCF and CRM)
1	Receivables from central governments and Central Banks	11,533,186	-	-	5,511,515	-	5,234	-	-	-	17,049,935
2	Receivables from regional and local government	-	-	-	-	-	-	-	-	-	-
3	Receivables from administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-	-
4	Receivables from multilateral development banks	-	-	-	-	-	-	-	-	-	-
5	Receivables from international organizations	-	-	-	-	-	-	-	-	-	-
6	Receivables from banks and brokerage houses	13,783	-	3,007,027	6,877,061	-	1,715,716	-	-	-	11,613,587
7	Receivables from corporate	111,021	-	106,340	-	-	12,541,473	-	-	-	12,758,834
8	Retail receivables	105,341	-	78,423	-	7,457,743	-	-	-	-	7,641,507
9	Receivables secured by residential property	30,971	-	25,423	-	-	-	-	-	6,488,528	6,544,922
10	Receivables secured by commercial property	45,925	-	69,480	5,504,115	-	2,154,057	-	-	-	7,773,577
11	Non-performing receivables	65	-	109	85,495	-	43,726	-	-	-	129,395
12	Receivables in high-risk categories	85	-	2	-	-	-	107,965	-	-	108,052
13	Mortgage-backed securities	-	-	-	-	-	-	-	-	-	-
14	Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
15	Investments similar to collective investment funds	23,745	-	3,207	49,824	-	33,791	-	-	-	110,567
16	Equity share investments	-	-	-	-	-	-	-	-	-	-
17	Other receivables	2,777,236	-	702,084	-	-	3,068,751	-	-	-	6,548,071
18	Total	14,641,358	-	3,992,095	18,028,010	7,457,743	19,562,748	107,965	-	6,488,528	70,278,447

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2.6. Risk amounts according to risk weights:

Current Period										
Risk Weights	0%	10%	20%	35%	50%	75%	100%	150%	200%	Deductions from Equity
Exposures before Credit Risk Mitigation	12,856,658	-	3,712,318	6,701,775	17,331,237	8,536,013	20,997,905	142,541	-	84,146
Exposures after Credit Risk Mitigation	14,641,358	-	3,992,095	6,488,528	18,028,010	7,457,743	19,562,748	107,965	-	84,146
Prior Period										
Risk Weights	%0	% 10	%20	%35	%50	%75	%100	%150	%200	Deductions from Equity
Exposures before Credit Risk Mitigation	11,054,594	-	1,589,319	6,435,736	11,797,208	7,870,642	15,324,830	7,299	-	171,117
Exposures after Credit Risk Mitigation	11,356,423	-	1,868,146	6,339,522	11,712,825	7,702,750	15,092,663	7,299	-	171,117

2.7. Information by major sectors and type of counterparties

Impaired Loans; according to "TFRS 9 Financial Instruments Standard" are the credits that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such credits, "specific provisions" are allocated as per TFRS 9.

Past Due Loans; are the credits that overdue up to 90 days but not impaired. For such credits, "general provisions" are allocated as per TFRS 9.

	Loans		Provisions
	Impaired Loans		
Current Period	Significant Increase in Credit Risk (Second Stage)	Default (Third Stage)	Expected Credit Loss Provisions ^(*)
Agriculture	63,086	9,746	13,846
Farming and Stockbreeding	31,154	2,938	2,987
Forestry	31,293	1,804	5,850
Fishery	639	5,004	5,009
Manufacturing	1,115,007	262,681	378,696
Mining and Quarrying	250,079	54,398	90,889
Production	806,806	193,924	239,988
Electricity, Gas and Water	58,122	14,359	47,819
Construction	1,510,587	325,507	491,122
Services	1,451,460	482,450	473,147
Wholesale and Retail Trade	972,821	301,443	279,822
Accommodation and Dining	147,390	23,628	45,081
Transportation and Telecommunication	148,179	49,934	42,779
Financial Institutions	58	13,584	13,582
Real Estate and Rental Services.	59,340	64,699	65,087
Professional Services	217	2	14
Educational Services	14,885	109	1,536
Health and Social Services	108,570	29,051	25,246
Others	425,368	105,456	140,605
Total	4,565,508	1,185,840	1,497,416

^(*) Expected credit loss provisions include second and third stages.

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	Loans		Provisions	
	Impaired Loans	Past due Loans	Value Adjustments ^(*)	Impaired Loans
Prior Period				
Agriculture	11,913	8,155	48	11,293
Farming and Stockbreeding	2,121	861	21	1,997
Forestry	4,889	7,293	27	4,393
Fishery	4,903	1	-	4,903
Manufacturing	117,724	371,499	5,795	102,452
Mining and Quarrying	38,749	77,201	1,279	37,324
Production	59,645	260,600	3,871	45,799
Electricity, Gas and Water	19,330	33,698	645	19,329
Construction	200,518	232,952	5,518	189,524
Services	341,976	309,913	6,795	329,029
Wholesale and Retail Trade	216,419	210,527	4,483	206,034
Accommodation and Dining	11,799	10,753	671	11,546
Transportation and Telecommunication	18,759	35,486	559	17,368
Financial Institutions	17,756	-	-	17,756
Real Estate and Rental Services.	65,432	12,207	259	65,276
Professional Services	-	-	-	-
Educational Services	530	552	54	402
Health and Social Services	11,281	40,388	769	10,647
Others	42,929	237,930	4,162	35,470
Total	715,060	1,160,449	22,318	667,768

^(*) The general provision amount is presented for past due loans.

2.8. Movements in value adjustments and provisions

Current Period ^(*****)	Opening Balance (After TFRS 9)	Provision for Period	Provision Reversals ^(***)	Other Adjustments ^(****)	Closing Balance
Provisions (Stage III) ^(*)	489,571	658,814	(203,316)	(103,142)	841,927
Provisions(Stage I-II) ^(**)	330,083	1,291,161	(528,055)	-	1,099,680

^(*) Refers to expected loss provision (Stage III)

^(**) Refers to expected loss provision (Stage I-II)

^(***) Related amount includes provision reversals and foreign exchange differences.

^(****) Represents loans written-off from assets.

^(*****) It does not include provisions for non-cash loans.

Prior Period	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments ^(****)	Closing Balance
Specific Provisions	586,519	632,352	(89,750)	(461,353)	667,768
General Provisions	318,825	101,046	(14,403)	-	405,468

^(****) Represents written-off loans.

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2.9. Risk involved in counter-cyclical capital buffer calculation

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
Turkey	24,970,123	-	24,970,123
Bahrain	1,075,439	-	1,075,439
Saudi Arabia	73,673	-	73,673
Marshall Islands	34,419	-	34,419
Albania	22,379	-	22,379
Kuwait	12,135	-	12,135
Uzbekistan	9,751	-	9,751
Burundi	8,217	-	8,217
United Arab Emirates	5,257	-	5,257
Germany	5,170	-	5,170
Other	28,222	-	28,222

2.10. Information of Cash and Noncash Loans according to Bank Risk Rating System

Risk Management Department develops rating models for legal and individual portfolios based on statistical methods. As of December 31, 2018, the classification of performing loans are given in the table below.

	Cash Loans	Non-Cash Loans	Total
High Quality	49%	73%	54%
Medium Quality	29%	12%	26%
Average	12%	11%	12%
Below Average	10%	4%	8%
Unrated	0%	0%	0%

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3. Explanations on consolidated currency risk

Foreign currency risk represents the Group's exposure to loss due to the changes in foreign currency exchange rates. All foreign currency assets, liabilities and foreign currency forward transactions are considered in calculation of capital to be employed for foreign currency risk according to Standard Method.

The Bank monitors daily the designated limits set by the Board of Directors and additionally observes the possible value changes in foreign currency positions. The limits are determined and followed both for the net foreign currency position and for the cross exchange rate risk within the position. As a tool of foreign currency risk management, foreign currency forward transactions are used when necessary to mitigate the risk.

As of 31 December 2018, the Group carries a net foreign currency short position of TL 716,838 (31 December 2017 – TL 542 long position) comprising of TL 661,104 off-balance sheet long position (31 December 2017-TL 300,898 short position) and TL 55,734 off balance sheet long position (31 December 2017 – TL 300,356 long position).

The announced current foreign exchange buying rates of the Group as of 31 December 2018 and the previous five working days are as follows (full TL):

	24/12/2018	25/12/2018	26/12/2018	27/12/2018	28/12/2018	Balance sheet evaluation rate
USD	5.29230	5.29915	5.28385	5.28572	5.26135	5.27922
EURO	6.03194	6.04001	6.01851	6.02046	6.02750	6.03915
GBP	6.70173	6.72389	6.70477	6.68312	6.66538	6.72374
CHF	5.32745	5.37648	5.34259	5.33083	5.35241	5.36103
100 JPY	0.04767	0.04807	0.04780	0.04768	0.04767	0.04792

The simple arithmetic averages of the major current foreign exchange buying rates of the Bank for the thirty days preceding the balance sheet date are as follows (full TL):

	Monthly average FC purchase rate
USD	5.3019
EUR	6.0369
GBP	6.7234
CHF	5.3462
100 JPY	0.0473

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Currency risk of the Group:

	EURO	USD	Other FC	Total
Current period				
Assets				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey ^(***)	2,900,281	3,790,062	2,738,469	9,428,812
Banks	4,250,288	347,438	2,222,693	6,820,419
Financial assets at fair value through profit and loss	-	75,181	-	75,181
Receivables From Money Markets	-	-	-	-
Financial assets at fair value through other comprehensive income	1,804,547	2,240,753	-	4,045,300
Loans and finance lease receivables ^(*)	6,933,619	14,371,868	50,451	21,355,938
Subsidiaries, associates and joint ventures	-	-	-	-
Financial assets measured at amortized cost	-	37,156	-	37,156
Derivative financial assets for hedging purposes	-	-	-	-
Tangible assets	7,697	203	-	7,900
Intangible assets	63,785	48	-	63,833
Other assets	1,980,855	27,625	11,221	2,019,701
Total Assets	17,941,072	20,890,334	5,022,834	43,854,240
Liabilities				
Funds collected from Banks via participation accounts and individual current accounts.	32,822	69,569	142,643	245,034
Current and participation accounts FC ^(***)	8,320,149	18,900,253	5,248,062	32,468,464
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	384,635	3,418,477	-	3,803,112
Marketable securities issued	-	5,119,262	1,038,674	6,157,936
Miscellaneous payables	21,480	13,707	582	35,769
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities ^(****)	106,482	234,565	86,040	427,087
Total Liabilities	8,865,568	27,755,833	6,516,001	43,137,402
Net balance sheet position	9,075,504	(6,865,499)	(1,493,167)	716,838
Net off-balance sheet position	(9,061,656)	6,923,802	1,476,750	(661,104)
Financial derivative assets	418,581	9,417,560	1,705,056	11,541,197
Financial derivative liabilities	9,480,237	2,493,758	228,306	12,202,301
Non-cash loans ^(**)	1,728,487	3,064,977	665,983	5,459,447
Prior period				
Total assets	8,922,919	17,632,243	3,087,584	29,642,746
Total liabilities	4,844,204	20,831,263	3,967,821	29,643,288
Net balance sheet position	4,078,715	(3,199,020)	(880,237)	(542)
Net off-balance sheet position	(3,840,325)	3,230,809	910,414	300,898
Financial derivative assets	665,383	5,406,552	1,222,468	7,294,403
Financial derivative liabilities	4,505,708	2,175,743	458,323	7,139,774
Non-cash loans ^(**)	1,549,915	2,616,933	404,125	4,570,973

^(*) Includes foreign currency indexed loans amounting to TL 5,425,809 (31 December 2017 - TL 7,240,328) followed as TL on the balance sheet and expected credit loss amounting to TL 301,187.

^(**) Does not have any effect to the net off-balance sheet position.

^(***) Precious metals are included in "Other FC" column.

^(****) Other liabilities amounting to TL 368 are not included in the currency risk as financial assets at fair value through profit and loss. It also includes provision of foreign currency indexed loans amounting to TL 121,772.

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Foreign currency amounts that are not included in the currency risk table due to the legislation related to calculation of foreign currency net position to equity standard ratio, are explained by their gradation in the financial statements below;

- Derivative financial assets held for trading TL 12,528 (31 December 2017 – 12,531 TL)
- Prepaid expenses : TL 706 (31 December 2017 – 408 TL)
- Derivative financial liabilities held for trading: TL 42,766 (31 December 2017 – 59,251 TL)
- Marketable securities of FC revaluation reverse: TL (51,432) (31 December 2017 – 12,609 TL)
- Derivative financial liabilities held for hedging : TL 106,352 (31 December 2017 – 70,795 TL)
- Forward foreign currency purchase transactions :TL 522,969 (31 December 2017 – TL 492,002)
- Forward foreign currency sale transactions: TL 772,511 (31 December 2017 – TL 456,030)

Currency risk sensitivity:

The Group is mainly exposed to foreign currency risk in EURO, USD and GOLD.

The following table shows the bank's sensitivity to 10% change both USD, EURO and GOLD exchange rate.

	% changes on foreign currency	Effects on profit/loss Current Period	Effects on equity Current Period
USD	%10	5,830	5,830
EUR	%10	1,385	1,385
GOLD	%10	(62,195)	(62,195)
	% changes on foreign currency	Effects on profit/loss Prior Period	Effects on equity Prior Period
USD	%10	3,179	4,439
EUR	%10	9,251	9,251
GOLD	%10	(11,072)	(11,072)

4. Explanations on position risk of equity securities in banking accounts

4.1. Relation of risks with gains accounted under equity and analyzing according to their aims including strategic reasons and the accounting policies applied and general information about valuation techniques with assumptions in this application, the elements that manipulate valuation and important changes:

The Group's non-quoted securities are accounted for fair value. When the fair value cannot be reliably measured, the cost method is used.

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4.2. Carrying value of share investments, for fair value and quoted securities, comparison with market value if market value is significantly different from fair value:

Current Period		Comparison	
Equity Securities (shares)	Carrying Value	Fair Value	Market Value
1 Financial assets whose fair value through other comprehensive income	27,548	-	-
Quoted Securities	-	-	-
2 Investment in Subsidiaries	-	-	-
Quoted Securities	-	-	-
3 Investments in Associates	23,680	-	-
Quoted Securities	-	-	-
4 Other	28,520	-	-
Quoted Securities	-	-	-
Prior Period		Comparison	
Equity Securities (shares)	Carrying Value	Fair Value	Market Value
1 Securities Available-for-Sale ^(*)	48,497	-	-
Quoted Securities	-	-	-
2 Investment in Subsidiaries	-	-	-
Quoted Securities	-	-	-
3 Investments in Associates	23,680	-	-
Quoted Securities	-	-	-
4 Other	19,405	-	-
Quoted Securities	-	-	-

4.3. Realized gains/losses, revaluation surpluses and unrealized gains/losses on equity securities and results included in core and supplementary capitals:

None noted.

5. Explanations on consolidated liquidity risk

The liquidity risk of the Group is the risk of being unable to fulfill its payment obligations on time due to not having enough cash sources or cash inflows to finance its cash outflows fully and on time due to cash flow instabilities. It has been evaluated in two main categories:

Funding Liquidity Risk : It is a kind of risk which does not meet the any unexpected loss and non defaulting debts and liabilities.

Market Liquidity Risk : It is a kind of risk which consists of the position that cannot be sold without affecting market price due to insufficient market depth or market conditions' deterioration or that cannot be completed with the position of market price for any reasons.

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5.1. Information on risk capacity of the Group, Responsibilities and structure of liquidity risk management, the Bank's internal liquidity risk reporting, communication between the Board of Directors and business lines on liquidity risk strategy, policy and application:

The applications and responsibilities related to the liquidity risk has been determined according to the Treasury Liquidity and Market Management Policies and Practices approved by Board of Directors. The Bank's liquidity and funding policy is to own sufficient liquidity reserve and funding opportunities to meet its liabilities even in cases of stress, resulting from the market conditions or other conditions specific to the Bank.

The Group, with its strong capital structure and its main shareholder is Kuwait Finance House's support, spread the base of current and participation accounts and be stable, diversified sources of foreign borrowing has a high risk capacity. In addition, the Liquidity Coverage Ratio of the Group which meets its cash outflows with the high-quality liquid assets is evaluated as high. There are also ready-to-use limits for the CBRT and financial institutions.

Senior management in the ALCO meetings are analyzed indicators of the liquidity situation and liquidity risk are weekly discussed. In addition, the Board of Directors are informed through the Audit Committee.

For the management of liquidity risk, the Risk Management Department follows the funding and liquidity risks, market conditions, in the participating accounts, the distribution of different currencies, maturity, cost and expected future cash flow requirements (particularly with regard to large deposits). Reports on the liquidity gap analysis prepared weekly by Budget and Management Reporting and monitored by the Asset and Liability Committee. These units also estimate the possible liquidity needs of the Bank in case of urgent situations and generate action plans based on these estimates. Risk Management Department follows the limits on liquidity risk determined by the Board of Directors. Risk Management Department, in addition to these, is implementing monthly liquidity stress tests to measure the effects of negative scenarios on liquidity position of the Bank. The Treasury Group Management manages the liquidity risk and funding risk in order to prevent insufficiencies of funding relating to any time or any source and makes reports related with the liquidity position to Asset and Liability Committee regularly. External Reporting Directorate tracks the liquidity coverage ratio and the results are reported to the BRSA.

5.2. Information on the centralization degree of liquidity management and funding strategy and the functioning between the Bank and the Bank's subsidiaries:

The Group's liquidity management is performed by the Asset and Liability Management. Depending on the Group's consolidated subsidiaries are subject to liquidity risk is managed in-house, but the necessary communication and coordination within the Assistant General Manager in charge of Treasury and International Banking are provided.

5.3. Information on the Group's funding strategy including the policies on funding types and variety of maturities:

Group spread to the base of current and participation accounts and that a stable, long-term diversification and aims to be the source of the funds used. Ratio of liquid assets to total assets ratio and risk indicators related to liquidity, credit and the ratio of funds, issues such as the concentration in collected funds are being closely monitored.

5.4. Information on liquidity management on the basis of currencies constituting a minimum of five percent of the Bank's total liabilities:

Almost all total liabilities of the Group consists of the Turkish Lira, American Dollar, Euro, Malaysian Ringgit, or Gold. TL liquidity of the Bank is managed through the open market transactions implemented by the Central Bank of the Turkish Republic and interbank operations. Liabilities in the form of TL are used in order to fund assets in the form of TL, assets in the form of TL are generated through foreign exchange based funds with swap operations if necessary. Foreign currency funds are provided with the foreign sourced credits in the form of foreign currency and sukuk-financial certificates issued. Liquidity in the form of foreign currency is kept at the interbank operations and accounts of the corresponding bonds within the limits. Liabilities in the form of Gold are kept at the required reserve accounts of the Central Bank of the Turkish substantially.

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5.5. Information on liquidity risk mitigation techniques:

Liquidity risk is mitigated by using techniques such as maintaining high quality liquid asset buffer to cover possible fund outflows, diversification of funding sources so far as possible and inclusion to the base, homogenizing the maturity distribution of repayments as far as possible, obtaining limits from funding institutions to use when necessary and ensuring that a determined portion of funding sources are comprised of deposits. In addition, core deposit analysis is performed and concentration on collected funds are closely monitored.

5.6. Information on the use of stress tests:

In order to analyze the source of the possible liquidity insufficiencies and whether conformably move exists for off-balance sheet and balance sheet positions relevant with liquidity risk expectation, 3 types liquidity stress tests are applied by Risk Management Directorate. These includes stress test scenarios are special to the Bank, related with the overall market or scenarios take in consideration both of the situations. Stress tests related with liquidity risk are repeated at monthly periods. Results are tracked with key risk indicators and monitored by Senior Management.

5.7. General information on urgent and unexpected liquidity situation plans:

Necessary strategy and procedures for the management of possible liquidity crisis are determined with the Liquidity Contingency Plan, which is approved and reviewed every year by the Executive Risk Committee. The actions to be taken favor the benefits of depositors, creditors of the Bank and shareholders. Indicators of Liquidity Contingency Plan were determined, in case of unexpected progress at the liquidity situation occur or at situations trigger of other indicators, plan is put into use. After Liquidity Contingency Plan is put into use, Liquidity Contingency Management Committee is responsible from the determination of actions to be taken.

Analysis of financial liabilities by remaining contractual maturities:

The following table is prepared before the Bank's liabilities are undiscounted and based on the earliest date to the payment. Adjustment column shows the items that give rise to probable cash exit according to contractual terms at later period. The items that is mentioned is included the maturity analysis however it is not included the balance sheet value of financial liabilities at the balance sheet.

	Up to 1 month	1-3 month	3-12 month	1-5 years	Above 5 years ^(*)	Total	Adjustments	Balance Sheet Value
31 December 2018								
Funds Collected	49,161,442	4,219,221	1,623,929	225,426	-	55,230,018	-	55,230,018
Other Fundings	14,633	649,749	1,411,517	747,878	2,212,652	5,036,429	(1,139,923)	3,896,506
Issued Securities	902,322	604,764	2,892,671	4,245,755	2,212,653	10,858,165	(3,065,295)	7,792,870
Funds provided under repurchase agreements	188,990	-	-	-	-	188,990	(987)	188,003
Total	50,267,387	5,216,279	6,513,235	4,945,751	2,212,653	69,155,305	(2,047,908)	67,107,397
31 December 2017								
Funds Collected	35,435,820	3,503,609	1,226,759	88,775	-	40,254,963	-	40,254,963
Other Fundings	102,193	350,347	2,751,889	2,327,619	-	5,532,048	(784,583)	4,747,465
Issued Securities	608,398	490,583	369,498	3,194,820	1,687,880	6,351,179	(699,338)	5,651,841
Funds provided under repurchase agreements	751,048	-	-	-	-	751,048	(524)	750,524
Total	36,897,459	4,344,539	4,348,146	5,611,214	1,687,880	52,889,238	(1,484,445)	51,404,793

^(*) Includes subordinated debts.

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Maturity analysis for guarantees and contingencies:

31 December 2018	Demand	Up to 1 month	1-3 month	3-12 month	1-5 years	Above 5 years	Unallocated	Total
Letters of Guarantee	5,688,077	81,800	441,412	2,453,996	1,605,546	120,448	0	10,391,279
Bills of Exchange and Bank Acceptances	360	19,120	27,698	26,920	0	0	0	74,098
Letters of Credit	429,522	139,102	212,454	241,055	57,665	78	0	1,079,876
Other guarantees	203,053	0	1,630	109,403	11,773	3,177	0	329,036
Pre-financings given as guarantee	1,791	0	0	0	0	0	0	1,791
Total	6,322,803	240,022	683,194	2,831,374	1,674,984	123,703	-	11,876,080
31 December 2017								
Letters of Guarantee	4,910,302	208,190	537,290	2,103,104	1,748,757	62,536	-	9,570,179
Bills of Exchange and Bank Acceptances	-	13,380	19,098	21,497	1,983	-	-	55,958
Letters of Credit	279,735	112,881	263,010	264,459	12,015	-	-	932,100
Other guarantees	305,764	593	2,971	162,176	14,393	-	-	485,897
Pre-financings given as guarantee	27,919	-	-	-	-	-	-	27,919
Total	5,523,720	335,044	822,369	2,551,236	1,777,148	62,536	-	11,072,053

Contractual maturity analysis of derivative instruments:

31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Total
Derivatives financial assets held for trading						
Foreign exchange derivatives:						
Entry	7,688,220	2,699,172	224,786	-	-	10,612,178
Exit	7,691,214	2,692,695	222,198	-	-	10,606,107
Hedging purposes financial assets						
Foreign exchange derivatives						
Entry	-	-	-	1,020,984	-	1,020,984
Exit	-	-	-	1,144,549	-	1,144,549
Total Cash Inflow	7,688,220	2,699,172	224,786	1,020,984	-	11,633,162
Total Cash Outflow	7,691,214	2,692,695	222,198	1,144,549	-	11,750,656
31 December 2017						
Derivatives financial assets held for trading						
Foreign exchange derivatives:						
Entry	4,828,992	1,140,288	961,865	-	-	6,931,145
Exit	4,859,152	1,142,688	826,105	-	-	6,827,945
Hedging purposes financial assets						
Foreign exchange derivatives						
Entry	-	-	-	746,440	-	746,440
Exit	-	-	-	819,063	-	819,063
Total Cash Inflow	4,828,992	1,140,288	961,865	746,440	-	7,677,585
Total Cash Outflow	4,859,152	1,142,688	826,105	819,063	-	7,647,008

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Liquidity Coverage Ratio-Parent Bank

Current Period (Parent Bank)	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High-Quality Liquid Assets				
1 Total high-quality liquid assets (HQLA)	10,508,441	8,795,462	10,488,821	8,775,842
Cash Outflows				
2 Retail deposits and deposits from small usiness customers, of which:	39,025,039	21,661,571	3,389,442	2,166,157
3 Stable deposits	10,261,242	-	513,062	-
4 Less stable deposits	28,763,797	21,661,571	2,876,380	2,166,157
5 Unsecured wholesale funding, of which:	10,237,486	6,333,153	5,244,979	3,132,932
6 Operational deposits	-	-	-	-
7 Non-operational deposits	9,329,972	6,111,483	4,337,465	2,911,262
8 Unsecured funding	907,514	221,670	907,514	221,670
9 Secured wholesale funding	-	-	-	-
10 Other cash outflows of which	8,432,694	7,464,267	8,432,694	7,464,267
11 Outflows related to derivative exposures and other collateral requirements	8,007,192	7,464,267	8,007,192	7,464,267
12 Outflows related to restructured financial instruments	425,502	-	425,502	-
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	-	-	-	-
14 Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15 Other irrevocable or conditionally revocable off-balance sheet obligations	15,380,687	5,760,329	1,017,528	306,640
16 Total Cash Outflows			18,084,643	13,069,996
Cash Inflows				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	14,676,955	11,138,438	12,592,834	10,612,342
19 Other cash inflows	8,518,216	8,076,938	8,518,216	8,076,938
20 Total Cash Inflows	23,195,171	19,215,376	21,111,050	18,689,280
Total Adjusted Value				
21 Total HQLA			10,488,821	8,775,842
22 Total Net Cash Outflows			4,521,161	3,267,499
23 Liquidity Coverage Ratio (%)			231.99	268.58

^(*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages. The table below presents highest, lowest and average liquidity coverage ratios within 2018:

Current Period	Highest	Date	Lowest	Date	Average
TL+FC	311.34	20/07/2018	215.70	19/10/2018	248.32
FC	422.71	16/02/2018	251.08	28/12/2018	331.97

The liquidity coverage rate is calculated by the ratio of the high quality liquid assets that the bank has to the net cash outflows in the one month maturity window. Important balance sheet items that determine the rate are: required reserves held by CBRT, securities not subject to repo / receivables, institutional qualified participation accounts, funds originated from abroad and receivables from banks. These items have higher share of liquid assets and net cash outflows, higher than other items due to their high rate of consideration and their variability over time.

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Prior Period (Parent Bank)	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TP+YP	YP	TP+YP	YP
High-Quality Liquid Assets				
1 Total high-quality liquid assets (HQLA)	9,241,665	8,060,513	9,199,442	8,018,290
Cash Outflows				
2 Retail deposits and deposits from small business customers, of which:	27,782,868	12,778,991	2,335,598	1,277,899
3 Stable deposits	8,853,762	-	442,688	-
4 Less stable deposits	18,929,106	12,778,991	1,892,910	1,277,899
5 Unsecured wholesale funding, of which:	8,201,705	4,077,294	4,123,296	2,008,329
6 Operational deposits	-	-	-	-
7 Non-operational deposits	7,479,666	3,999,733	3,401,257	1,930,768
8 Unsecured funding	722,039	77,561	722,039	77,561
9 Secured wholesale funding	-	-	-	-
10 Other cash outflows of which	21,400,263	10,829,912	8,183,772	6,425,919
11 Outflows related to derivative exposures and other collateral requirements	6,814,394	6,185,757	6,814,394	6,185,757
12 Outflows related to restructured financial instruments	320,000	-	320,000	-
13 Payment commitments and other off- balance sheet commitments granted for debts to financial markets	-	-	-	-
14 Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15 Other irrevocable or conditionally revocable off-balance sheet obligations	14,265,869	4,644,155	1,049,378	240,162
16 Total Cash Outflows			14,642,666	9,712,147
Cash Inflows				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	6,637,367	4,169,519	5,037,108	3,778,429
19 Other cash inflows	6,993,193	5,664,245	6,993,193	5,664,245
20 Total Cash Inflows	13,630,560	9,833,764	12,030,301	9,442,674
			Total Adjusted Value	
21 Total HQLA			9,199,442	8,018,290
22 Total Net Cash Outflows			3,660,667	2,428,037
23 Liquidity Coverage Ratio (%)			251.31	330.24

^(*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages. The table below presents highest, lowest and average liquidity coverage ratios within 31 December 2017:

Prior Period	Highest	Date	Lowest	Date	Average
TL+FC	648.12	10/03/2017	137.26	29/09/2017	268.61
FC	980.02	10/03/2017	283.29	12/05/2017	429.45

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Presentation of assets and liabilities according to their remaining maturities:

Current Period	Demand	Up to 1 month	1-3 Months	3-12 months	1-5 years	Over 5 years	Unallocated ^(*)	Total
Assets								
Cash (cash in vault, effectives, cash in transit, Cheques purchased) and balances with the Central Bank of the Republic of Turkey	4,138,895	6,473,026	-	-	-	-	-	10,611,921
Banks	6,352,267	1,136	543,524	-	-	-	-	6,896,927
Financial assets at fair value through profit and loss	-	22,228	20,532	14,921	34,974	10,439	-	103,094
Money market placements	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	194,356	365,308	277,283	4,813,983	415,375	138,115	6,204,420
Loans ^(*)	-	11,211,572	5,648,338	14,258,792	13,881,644	2,721,773	(753,976)	46,968,143
Held-to-maturity investments	-	-	-	-	37,156	-	-	37,156
Other assets ^(*)	145,233	2,737,567	295,581	-	346,640	-	666,304	4,191,325
Total Assets	10,636,395	20,639,885	6,873,283	14,550,996	19,114,397	3,147,587	50,443	75,012,986
Liabilities								
Current account and funds collected from banks via participation accounts	225,025	27,867	-	-	-	-	-	252,892
Current and profit sharing accounts	22,508,876	26,399,674	4,219,221	1,623,929	225,426	-	-	54,977,126
Funds provided from other financial institutions	-	14,564	530,480	1,302,063	148,189	1,901,210	-	3,896,506
Money market borrowings	-	188,003	-	-	-	-	-	188,003
Marketable securities issued	-	381,578	494,604	3,215,751	3,700,937	-	-	7,792,870
Miscellaneous payables	180,832	81,062	-	-	-	-	-	261,894
Other liabilities ^(*)	-	1,214,284	191,616	5,351	107,182	-	6,125,262	7,643,695
Total Liabilities	22,914,733	28,307,032	5,435,921	6,147,094	4,181,734	1,901,210	6,125,262	75,012,986
Net liquidity gap	(12,278,338)	(7,667,147)	1,437,362	8,403,902	14,932,663	1,246,377	(6,074,819)	-
Prior period								
Total assets	6,171,125	14,062,475	5,827,793	12,796,499	14,680,788	3,066,996	959,026	57,564,702
Total liabilities	16,430,348	21,035,351	4,354,487	4,053,616	4,913,272	1,360,338	5,417,290	57,564,702
Net liquidity gap	(10,259,223)	(6,972,876)	1,473,306	8,742,883	9,767,516	1,706,658	(4,458,264)	-

^(*) This line also includes receivables from leasing transactions.

^(**) Certain assets in the balance sheet that are necessary for the banking operations but cannot be readily convertible into cash in the near future, such as tangible assets, investments in associates and subsidiaries, joint ventures, stationary supplies and prepaid expenses are included under unallocated assets. The unallocated other liabilities column consists of equity and provisions balances.

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6. Explanations on consolidated leverage ratio

Leverage ratio table:

The leverage ratio table prepared in accordance with the communiqué "Regulation on Measurement and Assessment of Leverage Ratios of Banks" published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

	On-balance sheet assets	Current Period (*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	74,347,783
2	(Assets deducted in determining Tier I capital)	(297,605)
3	Total on-balance sheet risks (sum of lines 1 and 2)	74,050,179
	Derivative financial instruments and credit derivatives	
4	Replacement cost associated with all derivative instruments and credit derivatives	125,968
5	Add-on amounts for PFE associated with all derivative instruments and credit derivatives	134,811
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5)	260,779
	Securities or commodity financing transactions (SCFT)	
7	Risks from SCFT assets (excluding on-balance sheet)	924,333
8	Risks from brokerage activities related exposures	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8)	924,333
	Other off-balance sheet transactions	
10	Gross notional amounts of off-balance sheet transactions	61,755,452
11	(Adjustments for conversion to credit equivalent amounts)	40,649,139
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	21,106,313
	Capital and total risks	
13	Tier I capital	5,322,366
14	Total risks (sum of lines 3, 6, 9 and 12)	96,319,313
	Leverage ratio	
15	Leverage ratio	5.53

(*) Amounts in the table are three-month average amounts.

The leverage ratio calculated on the basis of the arithmetic average of the nominal value at the month-ends for the prior three-month period as of the consolidated balance sheet date of the Bank, was realized as 5.53% (31 December 2017 - 5.55%). The main reason for the changes compared to the previous period is that the increase in off-balance sheet items is higher than the increase in other items. Accordingly, the main capital increased by 20% from the period profit, and on-balance sheet risk increased by 29% while off-balance sheet items decreased by 1%. Consequently, current leverage ratio decreased by 2 basis points compared to the previous period.

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	On-balance sheet assets	Prior Period ^(*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	57,880,037
2	(Assets deducted in determining Tier I capital)	(278,887)
3	Total on-balance sheet risks (sum of lines 1 and 2)	57,601,150
	Derivative financial instruments and credit derivatives	
4	Replacement cost associated with all derivative instruments and credit derivatives	55,367
5	Add-on amounts for PFE associated with all derivative instruments and credit derivatives	118,417
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5)	173,784
	Securities or commodity financing transactions (SCFT)	
7	Risks from SCFT assets (excluding on-balance sheet)	647,446
8	Risks from brokerage activities related exposures	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8)	647,446
	Other off-balance sheet transactions	
10	Gross notional amounts of off-balance sheet transactions	57,807,376
11	(Adjustments for conversion to credit equivalent amounts)	(36,583,749)
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	21,223,627
	Capital and total risks	
13	Tier I capital	4,424,981
14	Total risks (sum of lines 3, 6, 9 and 12)	79,646,007
	Leverage ratio	
15	Leverage ratio	5.55

^(*) Amounts in the table are three-month average amounts.

7. Explanations on consolidated fair values of financial assets and liabilities

The table summarizes the book value and fair value of the financial assets and liabilities that were not accounted by the values in Bank's financial statements. Book value is the sum of the acquisition value and accumulated profit share accruals.

	Book Value	Fair Value
	Current period	Current period
Financial Assets		
Banks	6,896,927	6,896,927
Financial Assets at Fair Value Through Comprehensive Income	6,204,420	6,204,420
Financial assets measured at amortized cost	37,156	37,156
Loans and lease receivables	47,723,910	46,316,457
Financial Liabilities		
Funds collected from banks via individual current accounts and participation accounts.	252,892	252,892
Other current and profit sharing accounts	54,977,126	54,977,126
Money market balances	188,003	188,003
Funds provided from other financial institutions	3,896,506	3,895,868
Issued Securities	7,792,870	8,222,941
Miscellaneous payables	1,337,718	1,337,718

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	Book Value	Fair Value
	Prior period	Prior period
Financial Assets		
Banks	3,572,074	3,572,074
Financial assets available for sale	4,423,730	4,423,730
Loans and lease receivables	38,638,938	35,933,362
Financial Liabilities		
Funds collected from banks via individual current accounts and participation accounts.	310,471	310,471
Other current and profit sharing accounts	39,944,492	39,944,492
Money market balances	750,524	750,524
Funds provided from other financial institutions	4,747,465	5,565,826
Issued Securities	5,651,841	4,794,549
Miscellaneous payables	200,005	200,005

The estimated fair value of the loans is calculated by discounting future cash flows by using current market rates of profit share. The fair value of financial assets and liabilities carried at amortized cost other than loans, available for sales financial assets and funds provided from other financial institutions approximates to their book values since they are short term in nature and their effective profit share rates are similar with current effective profit rates.

8. Explanations on the activities carried out on behalf and account of other persons

The Parent bank does not perform purchases, sales and custody services in the name of others. The Bank has no fiduciary based transactions.

9. Explanations on consolidated risk management

Risk Management System refers to the Board of Directors, the Audit Committee, the Risk Management Committee, Asset-Liability Committee ("ALCO") and the Risk Management Department ("RMD") which has been composed in order to manage systemic risks that the Group is exposed. The Board of Directors is the owner of the Group's Risk Management System and ensures the establishment of an effective, sufficient and appropriate risk management system as well as the continuity of the system. The main objective of the Bank's Risk Management System is to identify, measure, monitor and control the risks that the Group is exposed to, by determining the policies, limits and procedures to control, to monitor, and if necessary to change the risk-return structure of the Group's future cash flows and the level & the quality of related activities.

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9.1. Explanations on risk management and risk weighted amounts:

9.1.1. Overview of risk weighted amounts:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period 31/12/2018	Prior Period 31/12/2017	Current Period 31/12/2018
1 Credit risk (excluding counterparty credit risk) (CCR) ^(*)	37,342,067	28,810,537	2,987,365
2 Of which standardised approach (SA)	37,401,412	28,865,185	2,992,113
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	89,725	80,519	7,178
5 Of which standardised approach for counterparty credit risk (SA-CCR)	89,725	80,519	7,178
6 Of which internal model method (IMM)	-	-	-
7 Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
8 Equity investments in funds – look-through approach	59,345	54,648	4,748
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – 1250% risk weighting Approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB supervisory formula approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	1,076,251	669,886	86,100
17 Of which standardised approach (SA)	1,076,251	669,886	86,100
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	4,354,278	3,522,742	348,342
20 Of which basic indicator approach	4,354,278	3,522,742	348,342
21 Of which standardised approach	-	-	-
22 Of which advanced measurement approach	-	-	-
23 Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	42,921,666	33,138,332	3,433,733

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9.1.2. Differences and matching between asset and liabilities' carrying values in financial statements and risk amounts in capital adequacy calculation:

	Carrying values in financial statements prepared as per TAS	Carrying values in legal consolidation prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				No subject to capital requirements or subject to deduction from capital
			Credit Risk	Counterparty Credit Risk	Securization Position	Market Risk	
Assets							
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances With Central Bank of Turkey	10,611,921	10,611,921	10,611,921	-	-	-	-
Financial Assets Held for Trading	6,896,927	6,896,927	6,896,927	-	-	-	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-	-
Banks	103,094	103,094	-	-	-	103,094	-
Receivables from money markets	6,204,420	6,204,420	6,204,420	-	-	-	-
Available for sale financial assets (net)	37,156	37,156	37,156	-	-	-	-
Loans and receivables	42,011	42,011	-	42,011	-	-	-
Factoring receivables	132,002	132,002	-	-	-	-	132,002
Held to maturity investments (net)	44,517,444	44,517,444	45,617,124	-	-	-	1,099,680
Investments in associates (net)	2,450,699	2,450,699	2,450,699	-	-	-	-
Investments in subsidiaries (net)	-	-	-	-	-	-	-
Investments in joint ventures (net)	270,382	270,382	270,382	-	-	-	-
Leasing receivables	23,680	23,680	23,680	-	-	-	-
Derivative financial assets held for hedges	28,520	28,520	28,520	-	-	-	-
Tangible assets (net)	457,187	457,187	457,187	-	-	-	-
Intangible assets (net)	200,765	200,765	200,765	-	-	-	-
Investment properties (net)	29,671	29,671	29,671	-	-	-	-
Tax assets	-	-	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	380,683	380,683	380,683	-	-	-	-
Other Assets	2,890,428	2,890,428	2,890,428	-	-	-	-
Total Assets	75,012,986	75,012,986	76,099,563	42,011	-	103,094	1,231,682
Liabilities							
Deposits	55,230,018	55,230,018	-	-	-	-	55,230,018
Loans	1,995,296	1,995,296	-	-	-	-	1,995,296
Money market borrowings	188,003	188,003	-	188,003	-	-	-
Securities issued	7,792,870	7,792,870	-	-	-	-	7,792,870
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Derivative financial liabilities	170,163	170,163	-	-	-	-	170,163
Debts from leasing transactions	-	-	-	-	-	-	-
Provisions	800,522	800,522	-	-	-	-	800,522
Current tax liability	177,652	177,652	-	-	-	-	177,652
Deferred tax liability	-	-	-	-	-	-	-
Subordinated Debts	1,901,210	1,901,210	-	-	-	-	1,901,210
Other Liabilities	1,337,718	1,337,718	-	-	-	-	1,337,718
Equity	5,419,534	5,419,534	-	-	-	-	5,419,534
Total Liabilities	75,012,986	75,012,986	-	188,003	-	-	74,824,983

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9.1.3. Main sources of differences between regulatory exposure amounts and carrying values in financial statements:

	Total	Items subject to credit risk framework	Items subject to securitisation framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
1-Carrying Value of Assets in Accordance with TAS (as per template 1B)	75,012,986	76,099,563	-	42,011	103,094
2-Carrying Value of Liabilities in Accordance with TAS (as per template 1B)	-	-	-	188,003	-
3-Total net amount	75,012,986	76,099,563	-	230,014	103,094
4-Off-balance sheet amounts	86,759,151	6,261,483	-	195,789	23,383,818
5-Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules (other than those already included in row 2)	-	-	-	-	-
7-Differences due to consideration of provisions	-	-	-	-	-
8-Differences due to prudential filters	-	-	-	-	-
9-Risk Amounts	161,772,137	82,361,046	-	425,803	23,486,912

9.2. General qualitative information on credit risk:

9.2.1. How the business model translates into the components of the bank's credit risk profile:

The business model of the Group basically consists of two main business fields: collecting funds by means of current accounts and profit/loss participation accounts subject to the interest-free banking rules, and using those funds and equity funds to make funds available to customers. Because of these main business fields, the group's assets have a credit-weighted structure. Reflecting this business model, its total assets are cash credit-weighted and financial leasing receivable-weighted. The Group lends funds to finance the real sector in general and increases its volume of credits by taking into account its risk-return balance to achieve sustainable growth.

The risk profile of the Group indicates the types of risks to which it is exposed or expects to be exposed, and its risk level by type of risk. The largest type of risk to which the Bank is exposed or expects to be exposed within its current and target business model is the credit risk. Since the risk of concentration is one of the most important components of the credit risk, concentration limits were set by sector for the concentration risk. Internal limits are set for cash, non-cash and total credits for each of 20 different sectors. Limits were set for monitoring Defaulted Credit Exposures in mentioned sectors and for taking corrective measures. With regard to concentration of the credit risk, internal limits were set for the top 10, 20, 30, 40, 50 and 100 debtor/credit risk groups. Furthermore, country limits were set to avoid concentration in countries selected as part of the sovereign risk process.

9.2.2. Criteria and approach used for defining credit risk policy and for setting credit risk limits:

The main purpose of the credit risk policy are to measure the counterparty risk undertaken as part of a credit transaction, to monitor the risk against the legal limits and the Bank's internal limits, to research new techniques and applications for measuring and controlling the risk, to monitor overdue receivables, to analyze the reason of overdue, and to take measures to prevent such reasons from repeating. The term 'credit risk' refers to the potential loss the Group might be exposed to because of credit borrowers' partial or full default of the credit agreements they signed with the bank. This term also includes the loss of market value because of the breakdown of the counterparty's financial position. This term includes on-balance sheet and off-balance sheet transactions too.

Risk limits are set by openly relating it with the Bank's volume on consolidated and non-consolidated basis within the financial system as part of its risk appetite structure. In this context the appetite for risk approved by the Board of Directors are divided between and allocated to other levels considered necessary by type of risk. The uses of the limits are closely monitored, and overdrafts are reported to the executive management for ensuring the necessary measures to be taken.

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9.3. Structure and organization of the credit risk management and control function:

Risk Control and Compliance Group works under the Audit Committee and the Internal System Committee reporting to the Board of Directors. Risk Control and Compliance Group Manager and Risk Management Department Manager working under the former are in charge of and responsible for the strategies and policies approved by the Board of Directors and for performing the other tasks assigned by the Internal System Committee. Credit Risk Management and Modeling Unit is one of the units comprising the Risk Management Department performs the risk measurement and management tasks concerning the credit risk.

9.4. Relations between the credit risk management, risk control, compliance and internal audit functions:

The units comprising the internal systems report to the Board of Directors as required by the organizational chart of the group. Board of Directors has transferred its tasks and responsibilities for the internal systems to the Internal Systems Committee formed by four members of the Board of Directors and appointed to be Internal System Executives. The units in question are supervised and coordinated by the Internal Systems Committee.

The internal control function of the Group is performed by the Internal Control Department. Internal Control System has been founded in such a manner to be capable and efficient to mitigate, manage, monitor and control the exposure risks of the Group in accordance with the Group's organizational structure and business fields as well as changing circumstances, and covers all domestic and international branches, head office, consolidated subsidiaries and all business activities of the Group. The internal control system and internal control activities of the Group are designed by the Internal Control Department in cooperation with the relevant management executives and are performed at a sufficient and efficient extent.

Compliance Department is in charge of managing the Group's compliance risk and taking it under control in an efficient way, forecasting and preventing the risk in question, and ensuring the group's activities to comply with the applicable laws and regulations.

Risk Management Department performs the tasks of determining, measuring and managing the exposure risks of the Group. An efficient risk management system infrastructure has been established for credit risk management tasks, credit policy, and risk management activities falling within the credit risk policy. The internal credit risk limits set by the Board of Directors are measured and reported at regular intervals to the Audit Committee.

Audit Department is in charge of assuring the Board of Directors and the executive management that the Group's business activities are performed in accordance with the Banking Law, other applicable laws and regulations and the internal strategies, policies, principles and targets of the group, and that the internal control and risk management systems are efficient and sufficient.

9.5. Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the Board of Directors

Risk Management Report for the Executive Management, which is the basic report presented to the Board of Directors and the executive management, is prepared before each meeting of the Audit Committee. The report in question contains the basic subjects described below:

Quality of the assets are analyzed in accordance with the classification specified in the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside and the assets are compared with those of the previous fiscal period to monitor the sustainability of the asset quality. The report describes the credit risk limits and the figures realized in the relevant fiscal period. Credits lent in 20 different economic sectors are monitored by cash, non-cash and total credits. Credit shares and development trends of the economic sectors are monitored. The risk limits set in accordance with the Group's appetite for risk and the figures realized are explained. Observed key risk indicators include the ratio of credit risk-weighted items over the total assets, the ratio of the total gross amount of defaulted credits over the total financing (cash credits) portfolio and their distribution by sector, distribution of guarantees by guarantee group, the ratio of the top 10/20/30/40/50/100 risks over the total financing (cash and non-cash credits) portfolio, and the ratio of write-off.

Distribution of cash credits by maturity term is monitored. Detailed information is given about the top 10 customers against whom internal or legal proceedings were filed, their limits, risks, guarantees and provisions, description of their sectors and their state are described. The trend of restructured credits is monitored. Also, loans are reported to risk group of the Main Partner.

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Sovereign ratings, limits and used limits are monitored and compared with the previous fiscal year.

The Parent bank creates credit portfolios in accordance with its internal segment structure. These segments are divided into sub-segments. Risks realized for cash, non-cash and total credits are monitored by each of these portfolios.

Real estate price indexes are analyzed to monitor whether the values of the real estates received as guarantees for the funds lent have increased or decreased. These real estates are also monitored by subcategory in accordance with the classification of regions published by the Turkish Central Bank. They are also compared with the House Price Index of Turkey published by the Turkish Central Bank.

Credit quality of assets:

		Gross carrying value as per TAS included in the financial statements prepared as per legal consolidation		Allowances/ amortisation and impairments	Net values
		Defaulted	Non-defaulted		
1	Loans	1,185,840	47,723,910	841,927	48,067,823
2	Debt securities	-	6,365,505	164,441	6,201,064
3	Off-balance sheet exposures ^(*)	-	14,228,231	239,316	13,988,915
4	Total	1,185,840	68,317,646	1,245,684	68,257,802

^(*) Accruals of derivative transactions are presented as net amounts under impairments.

Changes in stock of defaulted loans and debt securities:

	Current Period
1 Defaulted loans and debt securities at end of the previous reporting period	715,060
2 Loans and debt securities that have defaulted since the last reporting period	884,877
3 Receivables back to non-defaulted status	-
4 Amounts written off	(103,142)
5 Other changes	(310,955)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	1,185,840

9.6. Qualitative disclosures related to the credit quality of assets:

9.6.1. Scope and definitions of "overdue" and "provision allocated" receivables for accounting purposes and the differences of definitions between "overdue" and "provision allocated", if any

Overdue receivables and provision allocated receivables are determined according to the Communiqué on Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves. Provision allocated receivables: All financial instruments other than those included in TFRS 9 and whose fair value is accounted for under profit / loss.

9.6.2. The part of the overdue receivables (past 90 days) for which provision is not allocated and reasons for this application

The portion, as defined in The Regulation on Procedures and Principles Regarding the Classification of Loans and Provisions; based on minimum, legal compulsory consideration of collateral except for the amount calculated by using in the calculation of Lost in Default's ECLs. This portion corresponds to the rate determined by the Bank's past collection experience regarding the unsecured credit risk amount.

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9.6.3. Definitions of the methods used when determining the provision amount

TFRS 9 requires a 12-month expected credit loss provision for all financial assets in Stage 1 and the expected credit loss for all other financial assets. 12-month expected credit loss is the part of the expected credit loss from the potential default events within 12 months of the reporting date. Lifetime losses are losses from all possible default events during the expected life of the financial instrument after the reporting date. Lifetime refers to the maturity of the financial instrument. In non-performing financial instruments, the Parent Bank calculates the behavioral maturity and uses this to calculate the expected loan loss for the lifetime. ECL is calculated at each instrument level by taking into account the projected cash flows, P (Probability), LoD (Loss on Default), CCR (Credit Conversion Rate) and discount rate. In small, very insignificant and unrated portfolios, the ELC estimate can be made on a collective basis.

9.6.4. Definitions of restructured receivables

The financial terms in existing financial difficulties may be amended to facilitate payment of the debt, and the original loan terms that were previously signed can be changed according to the borrower's new financing power and structure when the loan cannot be repaid or a potential non-repayment is encountered. In order for a loan to be considered as restructured, the debtor must be in financial difficulty and the debtor must be provided with the concession requirements for changing the loan conditions.

9.6.5. Breakdown of exposures by geographical regions, industry and ageing:

The distribution of cash receivables by sectors is as follows:

Sector	Cash Loan Amount
Retail	7,503,339
Other Services	4,067,604
Education	349,526
Real Estate and Rental Services	382,518
Financial Services	5,506,964
Food, Beverage & Tobacco	1,387,365
Government	55,730
Production	2,010,030
Construction	6,319,400
Public Services (Elektricity, Water ve Gas)	3,674,016
Mining & Chemistry	2,318,818
Machinery & Equipment	354,933
Automobile	1,540,260
Petrol, Gas & Petroleum Products	133,942
Health	509,078
Agriculture	152,941
Textile	3,107,012
Wholesale & Retail Trade	8,126,200
Tourism	347,300
Transportation & Warehousing	1,062,774
Total	48,909,750

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The distribution of cash receivables by geographical regions is as follows:

Regions	Cash Loan Amount
Mediterranean Region	3,425,548
Eastern Anatolia Region	914,832
Aegean Region	2,996,116
Southeastern Anatolia Region	2,492,121
Central Anatolia Region	7,737,345
Black Sea Region	1,415,864
Marmara Region	26,109,922
Foreign	3,818,002
Total	48,909,750

The maturity distribution of cash receivables is as follows:

Maturity Distribution	Cash Loan Amount
1 year to 3 years	14,612,307
3 years to 5 years	5,810,681
Over 5 years	7,130,585
Up to 1 year	20,769,489
Overdue	586,688
Total	48,909,750

9.6.6. Provisions based on geographical and sectoral concentration and written off amounts:

Sector	Loans Under Follow-Up	Specific Provisions	Write-Offs
Agriculture	9,746	8,390	409
Farming and Stockbreeding	2,938	2,035	15
Forestry	1,804	1,350	394
Fishery	5,004	5,005	-
Manufacturing	262,681	217,367	29,796
Mining and Quarrying	54,398	44,639	2,112
Production	193,924	159,070	12,199
Electricity, Gas and Water	14,359	13,658	15,485
Construction	325,507	237,015	9,106
Services	482,837	319,652	51,643
Wholesale and Retail Trade	301,830	177,978	37,841
Accommodation and Dining	23,628	11,543	5,098
Transportation and Telecommunication	49,934	34,419	5,520
Financial Institutions	13,584	13,582	-
Real Estate and Rental Services	64,699	62,512	67
Professional Services	2	1	-
Educational Services	109	99	515
Health and Social Services	29,051	19,518	2,602
Other	105,069	59,503	12,188
TOTAL	1,185,840	841,927	103,142

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Geographical Region	Loans Under Follow-Up	Specific Provisions	Write-Offs
Marmara Region	666,034	476,553	67,110
Southeastern Anatolia Region	153,563	116,028	8,109
Central Anatolia Region	160,541	116,592	14,728
Mediterranean Region	110,693	66,340	5,438
Aegean Region	54,219	39,686	2,714
Eastern Anatolia Region	22,434	13,574	3,650
Black Sea Region	12,283	12,283	1,393
Foreign	6,073	871	-
Total	1,185,840	841,927	103,142

9.6.7. Aging analysis for non-performing loans

Current Period	Up to 3 months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years
Corporate and Commercial Loans	283,516	347,316	374,104	99,369	16,347
Retail Loans	6,893	28,860	10,244	1,475	955
Credit Cards	6,590	8,298	1,352	438	83
Other	-	-	-	-	-
Total	296,999	384,474	385,700	101,282	17,385

9.6.8. Distribution of restructured receivables based on whether provision is allocated or not

The distribution of restructured receivables according to whether the provision is allocated or not is below:

Restructure Status	Risk
Performing	732,523
Non-performing Leon	58,870
Total	791,393

9.7. Credit risk mitigation techniques:

	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
1 Loans	34,548,444	13,519,379	3,276,016	-	-	-	-
2 Debt securities	6,204,420	-	-	-	-	-	-
3 Total	40,752,864	13,519,379	3,276,016	-	-	-	-
4 Overdue	208,225	135,688	72,099	-	-	-	-

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9.8. Explanations on Counterparty Credit Risk (CCR):

9.8.1. Risk management objectives and policies for CCR:

Determination of the creditworthiness of financial counterparties has been made in addition to the Credit Policy of the Group in accordance with the regulations published by BRSA and the international practices in order to limit the exposure to be suffered by the Group in case of financial counterparty default. This annex describes allocation of limit to financial counterparties and continuous monitoring activities. In this respect, the creditworthiness assessments of the financial and non-financial entities for CCRs especially including sovereign assessments and limits are finally decided by the committees specified under the Policy.

9.8.2. The method used to allocate the operational limits defined in terms of internal capital for CCR and central counterparty risks:

Internal model method is not used for calculating the capital requirements for counterparty credit risk and central counterparty risks.

9.8.3. Policies relating to guarantees and other risk mitigation and assessments concerning counterparty credit risk, including central counterparty risk:

All of the Group's counterparty credit risk and central counterparty limits are non-committed limits and they include cash and non-cash limits. In case of any transactions involving non-cash risk exposure, the reinsurance of the organizations such as International Development Banks is used. If required, cash collateral is sought in order to minimize the exposure. In case of transactions involving cash risk exposure, the risk exposure is mitigated by obtaining shares and bills (sukuk) as security.

9.8.4. Rules with respect to wrong-way risk:

Internal model is not used for CCR; and as such, no calculation is made with respect to the wrong-way risk.

9.8.5. The impact in terms of the amount of collateral that the bank is required to provide in case of a credit rating downgrade:

Currently, the Group does not borrow by providing security for the cash exposure transactions where it is debtor. Therefore, the Group is not subject to such impacts in case of a possible rating downgrade and the Group's contracts do not contain such terms and conditions.

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9.8.6. Counterparty credit risk (CCR) approach analysis:

	Replacement Cost	Potential future exposure	EEPE (Effective Expected Positive Exposure)	Alpha used for computing regulatory EAD	EAD post- CRM	RWA
1 Standardised Approach CCR (for derivatives)	40,956	154,833		1.4	195,789	75,810
2 Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
3 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
4 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
5 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions	-	-	-	-	-	-
6 Total	-	-	-	-	-	75,810

9.8.7. Capital requirement for credit valuation adjustment (CVA)

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital obligation		
1 (i) VaR component (including the 3xmultiplier)	-	-
2 (ii) Stressed VaR component (including the 3xmultiplier)	-	-
3 All portfolios subject to the Standardised CVA capital obligation	195,789	13,915
4 Total subject to the CVA capital obligation	195,789	13,915

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9.8.8. CCR exposures by risk class and risk weights

	Risk Classes / Risk Weights *	%0	%10	%20	%50	%75	%100	%150	%200	Others ***	Total credit risk*
1	Receivables from central governments and Central Banks	194,001	-	-	-	-	-	-	-	-	-
2	Receivables from regional and local government	-	-	-	-	-	-	-	-	-	-
3	Receivables from administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-	-
4	Receivables from multilateral development banks	-	-	-	-	-	-	-	-	-	-
5	Receivables from international organizations	-	-	-	-	-	-	-	-	-	-
6	Receivables from banks and brokerage houses	-	-	106,085	58,446	-	-	-	-	-	50,440
7	Receivables from corporate	-	-	-	-	-	15,043	-	-	-	15,043
8	Retail receivables	-	-	-	-	9,585	-	-	-	-	7,189
9	Receivables secured by residential property	-	-	-	-	-	-	-	-	955	334
10	Receivables secured by commercial property	-	-	-	452	-	2,578	-	-	-	2,804
11	Non-performing receivables	-	-	-	-	-	-	-	-	-	-
12	Receivables in high-risk categories	-	-	-	-	-	-	-	-	-	-
13	Mortgage-backed securities	-	-	-	-	-	-	-	-	-	-
14	Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
15	Investments similar to collective investment funds	-	-	-	-	-	-	-	-	-	-
16	Equity share investments	-	-	-	-	-	-	-	-	-	-
17	Other receivables	-	-	-	-	-	-	-	-	-	-
17	Other assets**	-	-	-	-	-	-	-	-	-	-
18	Total	194,001	-	106,085	58,898	9,585	17,621	-	-	955	75,810

* Total credit risk: The amount related to capital adequacy calculation after counterparty credit risk measurement techniques are applied.

** Other assets: The template includes amounts that are not included in counterparty credit risk reported in CCR8.

*** 35% Risk Weight is classified in Other

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9.9. Explanations on securitization positions

None.

9.10. Qualitative explanations on market risk:

9.10.1. Group's processes and strategies:

Procedures for the identification, measurement, monitoring and control of the market risk of the Group, as well as processes for risk protection and strategies/processes for monitoring of the continuity of the hedging effectiveness, as well as the strategic objectives for the Group's trading activities:

Risk management activities are consisting of the measurement, monitoring, control and reporting of the risks, arising from risks incurred on the consolidated and solo basis and transactions carried out with the risk group that the Group is involved in. These activities are carried out by the Group's Risk Management Department.

The definition of the market risk is made by legislation within the scope of the Pillar 1 risks. The components of the market risk that do not fall within the scope of Pillar 1 risks are assessed internally. This process is carried out by the Risk Management Department with the consultation to other relevant departments.

Measurement of the market risk is carried out by the Risk Management Department. Market risk is measured by the standard method as specified in the third part of the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy. The Risk Management Department adopts international standardized methods and advanced statistical methods, which are included in the legislation, in the measurement of risks falling within the scope of the Pillar 2. Developed models as well as the stress tests and scenario analysis are used in the measurement and monitoring of the market risk.

The primary purpose of market risk is for the Group's risk exposure to be within the limits specified by the legislation and to be in accordance with the Group's risk appetite. In this context, market risk is periodically measured, monitored and reported.

Risk limits related to market risk are established in accordance with the Group's Risk Appetite Policy. Aforementioned risk limits are determined by the Board of Directors and reviewed at least once a year. Limit usages are closely monitored.

Risk mitigation techniques have been applied in line with the size and complexity of the undertaking market risk and the controls are implemented in order to ensure their effectiveness.

Treasury Group Department monitors foreign currency positions and cash flows on behalf of the Group.

Moreover, new products and projects are examined in terms of market risk management and appropriate internal controls are implemented in case of necessity.

The Parent Bank's strategic objectives for trading activities are given below.

- Ensure that the parent bank's lease certificate portfolio is managed at the optimum level within the risk-return balance limits
- Implement transaction by taking into account the future prospects of market developments/movements and the framework of trading opportunities in the current market prices,
- Invest in Sukuk (lease certificates) as an alternative investment tool to manage the liquidity profitably.

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9.10.2. The organization and structure of the market risk management function:

Definition of the market risk management structure established for the implementation of the Group's strategies and processes and the communication mechanism and relationship between the different parties involved in market risk management, as described in part 1.

The market risk service, operates under the Deputy Head responsible from the Market Risk, Operational Risk and Capital Planning within Risk Management Department. This service directly reports to the Board of Directors through the Internal Systems Committee. The results of risk measurement and risk monitoring are shared with other related units. The activities coordinated within the Internal Capital Adequacy Assessment Process are carried out together with other relevant departments of the Bank.

9.10.3. Structure and scope of risk reporting and/or measurement systems

Within the scope of risk management system, the Group established a reporting system which ensures effective analysis and evaluation for market risks. The risk measurement and risk monitoring results is reported to the Internal Systems Committee on a timely manner.

There is a risk measurement system which covers the scope and complexity of significant market risk components including transactions and operations exposed to market risk. This system is regularly monitored.

The details of the market risk calculated as of 31 December 2018 and 31 December 2017 in accordance with the principles in the third part of the "The Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette numbered 29511 and dated 23 October 2015 are as follows:

9.10.4. Market risk under standardised approach:

		Risk Weighted Amounts
		Current Period
Outright products		1,076,251
1	Profit share risk (general and specific)	403,149
2	Equity risk (general and specific)	-
3	Foreign exchange risk	671,790
4	Commodity risk	1,312
Options		-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	1,076,251
		Risk Weighted Amounts
		Prior Period
Outright products		664,964
1	Profit share risk (general and specific)	370,459
2	Equity risk (general and specific)	-
3	Foreign exchange risk	293,678
4	Commodity risk	827
Options		-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	664,964

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9.11. Explanation on Operational Risk

"Basic Indicator Method" is used in operational risk calculation of the Bank. The amount that is the basis for the operational risk is calculated by the use of the gross revenues of the Bank for the last 3 years, 2017, 2016 and 2015 in compliance with "Calculation of the Operational Risk" which is the Third Section of The Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks published in the Official Gazette numbered 29111 and dated 6 September 2014. The annual gross revenue is calculated by addition of the net fees and commission revenues, dividend income obtained other than subsidiaries and affiliates, the trading gain/loss(net) and other operating income to the net profit share income and by deduction of the gain/loss from the sale of the assets accounted other than the trading book, extraordinary income, the operational expenses for the support services taken from the main shareholder of the bank, subsidiary of the bank or subsidiary of the shareholder of the bank performing the calculation or the institutions which are subject to the relevant Regulation or the equivalent arrangements and the operational expenses for the support service taken from a bank and the amounts compensated from insurance. TL 348,342 corresponding to the 8% of TL 4,354,279 used in the calculation of the operational risk within the scope of "Capital adequacy standard rate" indicated in the disclosure I of this section, represents the operational risk which might be exposed to. TL 348,342 also defines the minimum capital sum which is required in order to eliminate the mentioned risk.

Current Period	31/12/2015 Amount	31/12/2016 Amount	31/12/2017 Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	1,916,914	2,273,905	2,776,027	2,322,282	15	348,342
Value at Operational Risk (Total*12.5)						4,354,279

Prior Period	31/12/2014 Amount	31/12/2015 Amount	31/12/2016 Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	1,493,752	1,916,914	2,273,905	1,894,857	15	284,229
Value at Operational Risk (Total*12.5)						3,552,857

9.12. Profit-share rate risk related to banking accounts:

9.12.1. Economic value differences arising from fluctuations in profit share rates in accordance with the regulation on measurement and evaluation of profit share rates derived from banking accounts with standard shock method

Current Period

Currency ^(*)	Applied Shock (+/-x basis points)*	Gains/Losses	Gains/ Shareholder's equity-Losses/ shareholder's equity
1 TRY	(+) 500bp	(371,506)	(4.99)%
2 TRY	(-) 400bp	338,537	4.54%
3 USD	(+) 200bp	281,553	3.78%
4 USD	(-) 200bp	(309,884)	(4.16)%
5 EURO	(+) 200bp	(2,917)	(0.04)%
6 EURO	(-) 200bp	6,691	0.09%
Total (For negative shocks)		35,344	0.47%
Total (For positive shocks)		(92,870)	(1.25)%

*Parent Bank

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Prior Period

Currency ^(*)	Applied Shock (+/-x basis points)	Gains/Losses	Gains/Shareholder's equity-Losses/ shareholder's equity
1 TRY	(+) 500bp	(531,871)	(9.09)%
2 TRY	(-) 400bp	496,216	8.48%
3 USD	(+) 200bp	271,534	4.64%
4 USD	(-) 200bp	(303,292)	(5.18)%
5 EURO	(+) 200bp	(23,052)	(0.39)%
6 EURO	(-) 200bp	28,817	0.49%
Total (For negative shocks)		221,740	3.79%
Total (For positive shocks)		(283,389)	(4.84)%

*Parent Bank

9.13. Risk management objectives and policies:

In accordance with Group's strategies, risk policies and vision, the analysis that Risk Management Service presents to Internal Systems Committee and Audit Committee are credit risks, market risks, liquidity risks, operational risks and IT risk evaluations. Besides, in accordance to market trends, economic conduct and Bank's strategic growth, capital adequacy stress test and scenario analyses, evaluation of economic development in the World and Turkey are presented to Internal Systems Committee and Board of Directors by Risk Management Service. These analysis contribute to Group Top Management's resolution process about risk appetite and awareness of risks, capital adequacy, strategy revisions and future estimation.

In addition, Risk Management Service verifies its own coordination to be ready proactively in business availability of Group and situations connected with it.

Risk Management Service continues risk monitoring and analyzing operations in accordance to Board of Director's Group's mission, vision and growth strategy to prevent the potential risks. In this context credit and market risks, liquidity risk, operational risks and all limits, internal personal scoring and corporate rating modeling with IT risks issues, IT risk evaluation, operational lost data base, key risk indicators, operational risk insurances, market risk calculations, following up of treasury transactions and asset-liability risks are being monitored.

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Financial instruments valued by applying methods that are based on observable market prices, directly or indirectly, on data that have significant effect on the fair value reflected in the inputs

Level 3: Financial instruments valued by applying methods that are not based on observable market prices, directly or indirectly, on data that have significant effect on the fair value reflected in the inputs.

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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 31 December 2018 and 31 December 2017 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held for trading	103,094	42,011	-	145,105
Forward transactions	-	30,919	-	30,919
Swap transactions	-	11,092	-	11,092
Government debt securities	30,097	-	-	30,097
Other marketable securities	72,997	-	-	72,997
Available-for-sale financial assets	6,204,420	-	-	6,204,420
Equity securities	27,548	-	-	27,548
Government debt securities	5,869,940	-	-	5,869,940
Other marketable securities	306,932	-	-	306,932
Financial liabilities				
Financial liabilities held for trading	-	62,981	-	62,981
Forward transactions	-	22,126	-	22,126
Swap transactions	-	41,685	-	41,685
Financial liabilities held for cash flow hedges	-	106,352	-	106,352
Prior Period				
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
Government debt securities	36,319	-	-	36,319
Other marketable securities	25,216	-	-	25,216
Available-for-sale financial assets	4,423,730	-	-	4,423,730
Equity securities	48,497	-	-	48,497
Government debt securities	4,103,448	-	-	4,103,448
Other marketable securities	271,785	-	-	271,785
Financial liabilities				
Financial liabilities held for trading	-	80,697	-	80,697
Forward transactions	-	14,948	-	14,948
Swap transactions	-	65,749	-	65,749
Financial liabilities held for cash flow hedges	-	70,795	-	70,795

There are no transfers between Level 1 and Level 2 in the current year.

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10. Explanations on consolidated business segments

The Parent Bank operates in Retail and SME Banking, Commercial Banking, Corporate and International Banking.

In Commercial Banking: to meet the financial needs of the customers, unique cash flow and financial solutions are provided to customers through loans, non-cash loans, foreign trade financing services and similar customized products. Domestic and foreign business opportunities are supported by using different corporate banking instruments to serve the sustainability of the production of entities.

The main activities of Retail and Enterprise Banking are fund collection, commercial installment loan, enterprise loan, non-cash loans, consumer financing and credit cards. The Bank serves in the range of products of profit share accounts creation, banking services, Trade Finance, Checks, POS services, Credit Cards, ATM services, Online Banking and Mobile Banking in these fields.

In International Banking, in the scope of the aim of improvement of the foreign trade financing and long-term mutual financing agreements with foreign banks, the relationships with foreign correspondent banks and investment institutes are executed directly or via branches abroad, representative offices and agencies. The firms, which exceed certain limits, are classified as "corporate" customers and directed to the Corporate Banking. The products offered to these customers are similar to the products of Commercial Banking. The aim of international banking is to enable foreign trade financing and develop mutual long term financing agreements with foreign banks. Besides supplying syndicated loans and issue the Sukuk for the Bank, investment banking also supplies syndicated loans in corporate basis for the firms and groups in Turkey. The Treasury in addition to monitoring foreign currency position and liquidity of the Bank, also conducts spot and forward transactions in TL or foreign currencies, performs derivative transactions (Forward, Swap) with banks and customers, trades of gold within the context of membership of Istanbul Gold Exchange, trades share certificates in BIST and international markets and conducts Murabaha transactions with foreign banks.

Specific balance sheet and income statement items according to segments:

Current Period					
	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Total operations of the Group
1 January – 31 December 2018					
Operating income	4,352,694	2,843,746	499,772	-	7,696,212
Operating expenses	3,186,982	1,367,772	490,173	1,604,594	6,649,521
Transfers between segments	2,305,206	(305,654)	(1,999,552)	-	-
Net operating income(loss)	3,470,918	1,170,320	(1,989,953)	(1,604,594)	1,046,691
Income from associates	-	-	-	7,715	7,715
Income (loss) before tax	3,470,918	1,170,320	(1,989,953)	(1,596,879)	1,054,406
Provision for taxation	-	-	-	243,699	243,699
Net income for the period	3,470,918	1,170,320	(1,989,953)	(1,840,578)	810,707
Current Period 31 December 2018					
Segment assets	18,471,406	27,461,414	25,069,232	-	71,002,052
Associates, subsidiaries and joint Ventures	-	-	-	52,200	52,200
Undistributed assets	-	-	-	3,958,734	3,958,734
Total assets	18,471,406	27,461,414	25,069,232	4,010,934	75,012,986
Segment liabilities	43,086,534	11,972,999	12,218,027	-	67,277,560
Undistributed liabilities	-	-	-	2,315,892	2,315,892
Shareholders' equity	-	-	-	5,419,534	5,419,534
Total liabilities	43,086,534	11,972,999	12,218,027	7,735,426	75,012,986

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Current Period					
	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Total operations of the Group
1 January – 31 December 2017					
Operating income	3,276,503	1,209,587	262,124	-	4,748,214
Operating expenses	1,576,719	519,866	561,971	1,280,804	3,939,360
Transfers between segments	1,207,795	(271,476)	(936,319)	-	-
Net operating income(loss)	2,907,579	418,245	(1,236,166)	(1,280,804)	808,854
Income from associates	-	-	-	4,104	4,104
Income (loss) before tax	2,907,579	418,245	(1,236,166)	(1,276,700)	812,958
Provision for taxation	-	-	-	183,251	183,251
Net income for the period	2,907,579	418,245	(1,236,166)	(1,459,951)	629,707
Current Period 31 December 2017					
Segment assets	17,955,408	20,095,632	17,743,947	-	55,794,987
Associates, subsidiaries and joint Ventures	-	-	-	43,085	43,085
Undistributed assets	-	-	-	1,726,630	1,726,630
Total assets	17,955,408	20,095,632	17,743,947	1,769,715	57,564,702
Segment liabilities	30,626,355	9,627,238	11,302,692	-	51,556,285
Undistributed liabilities	-	-	-	1,397,602	1,397,602
Shareholders' equity	-	-	-	4,610,815	4,610,815
Total liabilities	30,626,355	9,627,238	11,302,692	6,008,417	57,564,702

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION FIVE EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS

1. Explanations and notes related to assets

1.1. Cash and balances with the Central Bank of Republic of Turkey:

1.1.1. Cash and balances with the Central Bank of Republic of Turkey:

	Current Period	
	TL	FC
Cash/foreign currency	491,059	1,524,450
The Central Bank of Republic of Turkey	692,050	6,947,252
Other ^(*)	-	957,110
Total	1,183,109	9,428,812

	Prior Period	
	TL	FC
Cash/foreign currency	366,164	1,025,763
The Central Bank of Republic of Turkey	255,738	6,468,109
Other ^(*)	3,120	905,825
Total	625,022	8,399,697

^(*) As of 31 December 2018, precious metal deposit account amounting to TL 957,110 (31 December 2017-TL 693,239) is shown here.

1.1.2. Balances with the Central Bank of Turkey:

	Current Period	
	TL	FC
Unrestricted demand deposit	677,230	53
Unrestricted time deposit	-	-
Restricted time deposit	14,820	6,947,199
Total	692,050	6,947,252

	Prior Period	
	TL	FC
Unrestricted demand deposit	254,185	38
Unrestricted time deposit	-	-
Restricted time deposit	1,553	6,468,071
Total	255,738	6,468,109

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 interest on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 1.5% and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 24% for all foreign currency liabilities).

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

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1.2. Information on financial assets at fair value through profit and loss:

As of 31 December 2018, there are no financial assets at fair value through profit and loss subject to repurchase transactions, given as a collateral or blocked (31 December 2017 – None).

Positive Differences Related to Derivative Financial Assets Held-for-Trading:

Derivative financial assets at fair value through profit and loss	Current Period	
	TL	FC
Forward transactions	29,120	1,799
Swap transactions	363	10,729
Futures transactions	-	-
Options	-	-
Other	-	-
Total	29,483	12,528

Derivative financial assets at fair value through profit and loss	Prior Period	
	TL	FC
Forward transactions	11,141	5,326
Swap transactions	3,027	7,205
Futures transactions	-	-
Options	-	-
Other	-	-
Total	14,168	12,531

1.3. Information on Banks:

1.3.1. Information on Banks Account:

	Current Period	
	TL	FC
Banks	12,858	6,884,069
Domestic	12,858	3,608,271
Foreign	-	3,275,798
Branches and head office abroad	-	-
Total	12,858	6,884,069

	Prior Period	
	TL	FC
Banks	8,619	3,563,455
Domestic	8,505	2,413,931
Foreign	114	1,149,524
Branches and head office abroad	-	-
Total	8,619	3,563,455

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1.3.2. Information on foreign bank accounts:

	Current Period	
	Unrestricted Amount	Restricted Amount
EU Countries	1,639,665	-
USA and Canada	1,344,351	-
OECD Countries ^(*)	13,458	-
Off-shore Banking Regions	567	-
Other	277,757	-
Total	3,275,798	-
	Prior Period	
	Unrestricted Amount	Restricted Amount
EU Countries	645,819	-
USA and Canada	455,757	-
OECD Countries ^(*)	13,107	-
Off-shore Banking Regions	945	-
Other	34,010	-
Total	1,149,638	-

^(*) OECD countries other than European Union countries, USA and Canada.

1.4. Financial assets at fair value through profit or loss:

	Current Period
Debt Securities	6,240,372
Quoted on stock exchange	6,240,372
Not quoted on stock exchange	-
Share certificates	128,489
Quoted on stock exchange	60,764
Not quoted on stock exchange	67,725
Impairment provision (-)	(164,441)
Total	6,204,420
	Prior Period
Debt Securities	4,289,387
Quoted on stock exchange	4,289,387
Not quoted on stock exchange	-
Share certificates	174,134
Quoted on stock exchange	124,923
Not quoted on stock exchange	49,211
Impairment provision (-)	(39,791)
Total	4,423,730

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5. Information on Loans

1.5.1. All types of loans and advances given to shareholders and employees of the Bank:

	Current Period	
	Cash	Non-Cash
Direct loans granted to shareholders	1,034	398
Corporate shareholders	-	398
Real person shareholders	1,034	-
Indirect loans granted to shareholders	204,988	520
Loans granted to employees	16,311	6
Total	222,333	924

	Prior Period	
	Cash	Non-Cash
Direct loans granted to shareholders	1,030	786
Corporate shareholders	-	786
Real person shareholders	1,030	-
Indirect loans granted to shareholders	150,924	917
Loans granted to employees	18,134	3
Total	170,088	1,706

1.5.2. Information on first and second category loans and other receivables including restructured or rescheduled loans:

Current Period Cash Loans ^(*)	Standard Qualified Loans	Loans Under Close Monitoring		
		Loans which are not covered by restructuring	Loans with Revised Contract Terms Change in Contract Terms	Refinancing
Loans	43,152,970	3,722,571	731,716	-
Export Loans	26,872	506	2	-
Import Loans	1,867,353	81,466	-	-
Enterprise Loans	22,876,217	3,034,533	710,335	-
Consumer Loans	6,603,831	225,107	3,883	-
Credit Cards	746,845	46,666	16,975	-
Loans Given to Financial Sector	5,314,217	-	-	-
Other	5,717,635	334,293	521	-
Other Receivables	5,432	110,414	807	-
Total	43,158,402	3,832,985	732,523	-

^(*) Receivables from Leasing Transactions are included.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Performing Loans and Other Receivables			Loans and Other Receivables under Close Monitoring		
	Loans and Receivables with Revised Contract Terms			Loans and Other Receivables (Total)	Loans and Receivables with Revised Contract Terms	
Cash Loans	Loans and Other Receivables (Total)	Extension of Repayment Plan	Other		Extension of Repayment Plan	Other
Loans	35,390,714	632,516	-	1,159,692	653,608	-
Financing commodity against document	-	-	-	-	-	-
Exports Loan	43,351	16	-	603	-	-
Imports Loans	1,687,948	-	-	168	-	-
Enterprise Loans	22,529,634	610,366	-	836,171	550,430	-
Consumer Loans	6,636,210	17,986	-	212,748	46,444	-
Credit Cards	555,456	-	-	7,250	-	-
Precious Metal Loans	55,033	-	-	-	-	-
Loans Given to Financial Sector	1,226,735	-	-	1	-	-
Loans Extended Abroad	209,358	4,148	-	60,611	56,734	-
Other	2,446,989	-	-	42,140	-	-
Other Receivables	7,045	-	-	757	-	-
Total	35,397,759	632,516	-	1,160,449	653,608	-

Current Period	Standard Loans	Loans and other receivables under close monitoring
12 Month Expected Credit Losses	444,191	-
Significant Increase in Credit Risk	-	655,489

	Prior Period
General Provisions	407,954
I. For Loans and Receivables in Group I (Total)	332,145
Profit Sharing Accounts' Share	116,559
The Bank's Share	215,586
Other	-
I. Additional Provision for Loans and Receivables with Extended Maturities	-
Profit Sharing Accounts' Share	-
The Bank's Share	-
Other	-
II. Loans and Receivables in Group II (Total)	22,318
Profit Sharing Accounts' Share	10,983
The Bank's Share	11,335
Other	-
II. Additional Provision for Loans and Receivables with Extended Maturities	-
Profit Sharing Accounts' Share	-
The Bank's Share	-
Other	-
Provisions for Non-Cash Loans	25,422
Other	28,069

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.3. Breakdown of loans and other receivables according to their maturities:

		Loans under Close Monitoring	
		Loans without Revised Contract Terms	Loans with Revised Contract Terms
Cash Loans ^(*)	Standard Loans		
Short-term Loans	13,090,222	795,138	56,300
Medium and Long-term Loans ^(**)	30,068,180	3,037,847	676,223
Total	43,158,402	3,832,985	732,523

^(*)Leasing receivables are included.

Prior Period	Performing Loans and Other Receivables		Loans and other receivables under Follow-Up	
	Loans and other receivables	Loans and Receivables with Revised Contract Terms	Loans and other receivables	Loans and Receivables with Revised Contract Terms
Cash Loans				
Short-term loans and other receivables	8,833,779	15,623	36,151	10,748
Loans	8,826,734	15,623	35,394	10,748
Other receivables	7,045	-	757	-
Medium and long-term loans and other receivables ^(*)	25,931,464	616,893	470,690	642,860
Loans	25,931,464	616,893	470,690	642,860
Other receivables	-	-	-	-
Total	34,765,243	632,516	506,841	653,608

^(*) Loans with have original maturities longer than a year are classified as "Medium and Long Term Loans".

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.4. Information on consumer loans, personal credit cards, personnel loans and personnel credit cards:

Current Period	Short Term	Medium and Long Term	Total
Consumer loans - TL	73,283	6,511,422	6,584,705
Housing loans	20,865	5,729,170	5,750,035
Vehicle loans	30,836	480,515	511,351
Consumer loans	19,859	181,876	201,735
Other	1,723	119,861	121,584
Consumer Loans-FC Indexed	-	38	38
Housing loans	-	38	38
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	237,380	237,380
Housing Loans	-	169,628	169,628
Vehicle Loans	-	118	118
Consumer Loans	-	57,746	57,746
Other	-	9,888	9,888
Retail Credit Cards-TL	345,849	75	345,924
With Installment	66,190	75	66,265
Without Installment	279,659	-	279,659
Retail Credit Cards-FC	273	-	273
With Installment	273	-	273
Without Installment	-	-	-
Personnel Loans-TL	1,133	9,565	10,698
Housing Loans	-	1,096	1,096
Vehicle Loans	340	4,712	5,052
Consumer Loans	791	3,757	4,548
Other	2	-	2
Personnel Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	8,779	70	8,849
With Installment	3,306	70	3,376
Without Installment	5,473	-	5,473
Personnel Credit Cards-FC	-	-	-
Installment based	-	-	-
Without-installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total	429,317	6,758,550	7,187,867

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Prior Period	Short term	Medium and long term	Total
Consumer Loans-TL	57,159	6,583,441	6,640,600
Housing Loans	13,722	5,883,855	5,897,577
Vehicle Loans	15,072	379,081	394,153
Consumer Loans	21,920	182,143	204,063
Other	6,445	138,362	144,807
Consumer Loans-FC Indexed	-	1,604	1,604
Housing Loans	-	1,604	1,604
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	195,065	195,065
Housing Loans	-	116,388	116,388
Vehicle Loans	-	8,148	8,148
Consumer Loans	-	44,893	44,893
Other	-	25,636	25,636
Retail Credit Cards-TL	259,700	119	259,819
With Installment	50,251	119	50,370
Without Installment	209,449	-	209,449
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	1,467	10,222	11,689
Housing Loans	-	1,097	1,097
Vehicle Loans	258	4,665	4,923
Consumer Loans	1,207	4,460	5,667
Other	2	-	2
Personnel Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	10,151	51	10,202
With Installment	3,124	51	3,175
Without Installment	7,027	-	7,027
Personnel Credit Cards-FC	-	-	-
Installment based	-	-	-
Without-installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total	328,477	6,790,502	7,118,979

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.5 Information on commercial installment loans and corporate credit cards:

Current Period	Short term	Medium and long term	Total
Commercial Installment Loans-TL	255,142	4,395,428	4,650,570
Business Loans	19,741	1,226,572	1,246,313
Vehicle Loans	191,863	1,615,884	1,807,747
Consumer Loans	43,538	1,552,971	1,596,509
Other	-	1	1
Commercial Installment Loans-FC Indexed	14,884	1,559,774	1,574,658
Business Loans	11,441	372,631	384,072
Vehicle Loans	3,112	245,751	248,863
Consumer Loans	331	941,392	941,723
Other	-	-	-
Commercial Installment Loans-FC	49,128	1,207,390	1,256,518
Business Loans	44,911	832,342	877,253
Vehicle Loans	4,217	111,545	115,762
Consumer Loans	-	-	-
Other	-	263,503	263,503
Corporate Credit Cards-TL	455,440	-	455,440
With Installment	160,745	-	160,745
Without Installment	294,695	-	294,695
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	774,594	7,162,592	7,937,186
Prior Period	Short term	Medium and long term	Total
Commercial Installment Loans-TL	203,320	4,618,220	4,821,540
Business Loans	7,379	1,237,846	1,245,225
Vehicle Loans	134,318	1,517,461	1,651,779
Consumer Loans	61,623	1,862,838	1,924,461
Other	-	75	75
Commercial Installment Loans-FC Indexed	27,462	1,644,797	1,672,259
Business Loans	14,998	339,825	354,823
Vehicle Loans	9,581	374,138	383,719
Consumer Loans	2,883	923,133	926,016
Other	-	7,701	7,701
Commercial Installment Loans-FC	28,632	595,549	624,181
Business Loans	28,632	397,096	425,728
Vehicle Loans	-	37,664	37,664
Consumer Loans	-	-	-
Other	-	160,789	160,789
Corporate Credit Cards-TL	292,685	-	292,685
With Installment	106,201	-	106,201
Without Installment	186,484	-	186,484
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	552,099	6,858,566	7,410,665

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.6. Breakdown of public and private loans:

	Current period
Public	75,479
Private	45,197,732
Total	45,273,211
	Prior period
Public	17,136
Private	36,541,072
Total	36,558,208

1.5.7. Breakdown of domestic and foreign loans:

	Current period
Domestic Loans	44,934,188
Foreign Loans	339,023
Total	45,273,211
	Prior period
Domestic Loans	36,288,239
Foreign Loans	269,969
Total	36,558,208

1.5.8. Loans granted to subsidiaries and associates:

	Current period
Loans Granted Directly To Subsidiaries And Associates ^(*)	35
Loans Granted Indirectly To Subsidiaries And Associates	-
Total	35
	Prior period
Loans Granted Directly To Subsidiaries And Associates ^(*)	19
Loans Granted Indirectly To Subsidiaries And Associates	-
Total	19

^(*) Among amounts stated above, the Group's loans granted directly to subsidiaries and associates are exhibited at "Banks" line of attached financial statements.

1.5.9. Specific provisions for loans:

	Current period
Specific provisions	
Loans And Receivables With Limited Collectability	89,643
Loans And Receivables With Doubtful Collectability	243,531
Uncollectible Loans And Receivables	508,753
Total	841,927
	Prior period
Specific Provisions	
Loans And Receivables With Limited Collectability	145,827
Loans And Receivables With Doubtful Collectability	97,155
Uncollectible Loans And Receivables	424,786
Total	667,768

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.10. Information on non-performing loans (Net):

1.5.10.1. Information on non-performing loans and other receivables restructured or rescheduled:

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
(Gross amounts before special provisions)			
Restructured loans and other receivables	-	58,870	-
Rescheduled loans and other receivables	-	-	-
Prior period			
(Gross amounts before special provisions)			
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	-

1.5.10.2. Information on the movement of total non-performing loans:

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period			
Ending Balance Of Prior Period 31.12.2017	158,589	117,234	439,237
Additions In The Current Period (+)	322,009	271,152	291,716
Transfers From Other Categories Of Non-Performing Loans(+)	-	260,125	298,008
Transfers To Other Categories Of Non-Performing Loans (-)	259,090	299,043	-
Collections In The Current Period (-)	78,879	38,948	193,128
Write Offs (-)	-	-	103,142
Sold Portfolio (-)	-	-	-
Corporate And Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Ending Balance Of The Current Period	142,629	310,520	732,691
Specific Provisions (-)	89,643	243,531	508,753
Net Balance at the Balance Sheet	52,986	66,989	223,938

1.5.10.3. Information on non-performing loans granted as foreign currency

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
Ending Balance Of The Current Period	19,793	-	6,073
(Provision)	(2,547)	-	(871)
Prior period			
Ending Balance Of The Prior Period	-	-	930
(Specific Provision)	-	-	(821)

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NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1.5.10.4. Gross and net amounts of non-performing loans with respect to user groups:

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Current Period (Net)	52,986	66,989	223,938
Loans Granted To Real Persons And Legal Entities (Gross)	142,629	310,520	732,691
Specific Provision (-)	89,643	243,531	508,753
Loans To Real Persons And Legal Entities (Net)	52,986	66,989	223,938
Banks (Gross)	-	-	-
Specific Provision (-)	-	-	-
Banks (Net)	-	-	-
Other Loans And Receivables (Gross)	-	-	-
Specific Provision (-)	-	-	-
Other Loans And Receivables (Net)	-	-	-
Prior Period (Net)	12,762	20,079	14,451
Loans To Real Persons And Legal Entities (Gross)	158,589	117,234	439,237
Specific Provision (-)	145,827	97,155	424,786
Loans To Real Persons And Legal Entities (Net)	12,762	20,079	14,451
Banks (Gross)	-	-	-
Specific Provision (-)	-	-	-
Banks (Net)	-	-	-
Other Loans And Receivables (Gross)	-	-	-
Specific Provision (-)	-	-	-
Other Loans And Receivables (Net)	-	-	-

The Parent Bank holds collaterals like mortgage pledge, customer cheques and other collaterals against these financial assets.

1.5.10.5. The aging analysis of financial assets that are past due but not impaired by class of financial instruments is as follows:

Current period	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and receivables					
Corporate loans	2,835,639	639,881	608,330	-	4,083,850
Consumer loans	16,015	129,499	83,460	-	228,974
Credit cards	40,369	14,395	8,877	-	63,641
Total	2,892,023	783,775	700,667	-	4,376,465
Prior period	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and receivables					
Corporate loans	683,540	137,828	119,108	-	940,476
Consumer loans	38,107	132,728	41,889	-	212,724
Credit cards	4,764	1,736	749	-	7,249
Total	726,411	272,292	161,746	-	1,160,449

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1.5.10.6. Information on profit share accruals, discounts and valuation differences computed for non-performing loans and their provision:

	Group III Loans and Other Receivables with Limited Collectibility	Group IV Loans and Other Receivables with Doubtful Collectibility	Group V Uncollectible Loans and Other Receivables
Current Period (Net)	6,119	5,287	5,133
Profit Share Accruals Discount And Valuation Differences	10,207	10,092	15,643
Provision (-)	4,088	4,805	10,510

1.5.11. Main guidelines for liquidation process of uncollectible loans and other receivables:

Loans and other receivables, which were deemed uncollectible according to the "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published in the Official Gazette No. 26333 dated 1 November 2006 and for which a full impairment provision has been made, are written-off per the decision of the Bank top management. Within 2017, non-performing loans amounting to TL 103,142 have been written-off (31 December 2017 – TL 461,353).

1.5.12. Explanations on write-off policy

The parent bank follows a write-off policy in accordance with the decision taken by the Bank's top management if it is not possible to collect the loan receivable after the transfer to the legal follow-up and it is not possible to collect it in the legal follow-up process and if the collateral is not available.

1.6. Information on financial assets measured at amortised cost:

	Current period
Value at the Beginning of the Period	
Foreign Exchange Differences in Monetary Assets	-
Purchases within the year	37,156
Disposals through sales and redemptions	-
Impairment Provision (-)	-
End of Term Total	37,156
	Prior period
Value at the Beginning of the Period	
Foreign Exchange Differences in Monetary Assets	-
Purchases within the year	-
Disposals through sales and redemptions	-
Impairment Provision (-)	-
End of Term Total	-

1.7. Information on investment in associates (Net):

1.7.1 The 1.54% ownership of the shares of Kredi Garanti Fonu A.Ş. amounting to TL 4,897 (31 December 2017 – TL 4,719), 8.36% ownership of the shares of Islamic International Rating Agency amounting to TL 714 (31 December 2017 – TL 714), and 6.99% ownership of the shares of Neova Sigorta A.Ş. amounting to TL 5,201 (31 December 2017 – TL 5,201), Swift shares amounting to TL 390 (31 December 2017 – TL 390) and 0.0035% ownership of the shares traded in Borsa İstanbul A.Ş. amounting to TL 15 (31 December 2017 – TL 15) and VISA Inc. shares amounting to TL 7,055 (31 December 2017 – TL 7,149) are classified as financial assets available for sale since the Bank's ownership in these entities is less than 10% and the Parent Bank does not have a significant influence on these entities.

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1.7.2. Information about investments in unconsolidated associates:

None (31 December 2017 – None).

1.7.3. Information related to consolidated associates:

None (31 December 2017 – None).

1.8. Information on Subsidiaries (Net):

1.8.1. Although the Parent Bank has control power over the management and capital of its non-financial subsidiaries, Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği San. Ve Tic. A.Ş. does not confirm to the definition of financial subsidiary in accordance with "Regulation related to the Preparation of Consolidated Financial Statements by Banks" published in the Official Gazette No. 26340 dated 8 November 2006; hence this subsidiary has not been consolidated. The Bank has reflected its subsidiary at restated cost less any provision for impairment in its financial statements until 31 December 2004.

1.8.2. Information on subsidiaries:

Title	Address (City/Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği San.ve Tic. A.Ş. (**)	İstanbul/Turkey	99.99%	99.99
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/Turkey	75.00%	97.61%
KT Sukuk Varlık Kiralama A.Ş.	İstanbul/Turkey	100%	100%
KT Kira Sertifikaları Varlık Kiralama A.Ş.	İstanbul/Turkey	100%	100%
KT Bank AG (*)	Frankfurt/Germany	100%	100%
Architech Bilgi Sistemleri ve Pazarlama Tic A.Ş. (**)	İstanbul/Turkey	100%	100%
KT Sukuk Company Limited (***)	George Town/ Cayman Islands	100%	100%

Information on subsidiaries according to the order of the above table:

Total assets	Equity	Total fixed assets	Profit share income	Income from marketable securities	Current period profit/ loss	Prior period profit /loss	Fair value
28,121	27,617	-	-	-	(4,710)	3,669	-
108,177	100,447	34,337	-	-	4,657	10,509	-
126,869	499	-	-	-	284	61	-
8,288,212	179	-	-	-	72	13	-
2,234,662	555,308	71,058	-	-	(3,330)	(33,923)	-
58,434	165,713	2,829	-	-	9,886	4,356	-
1,865,128	1	-	-	-	-	-	-

(*) As of 31 December 2018, financial figures for this entity in the table above are based on the financial information prepared in accordance with the local regulations of the country in which this entity operates.

(**) These figures are shown per Turkish Commercial Law financial statements as at 30 September 2018.

(***) KT Sukuk Company Limited is established in Cayman Islands on 31 July 2015, for the need of a second subordinated loan at the Bank. According to relevant article of TFRS 10, it is described as a subsidiary.

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Movement regarding the subsidiaries

	Current period 31.12.2018
Balance At The Beginning Of The Year	23,680
Movements During The Year	-
Purchases	-
Transfers From Subsidiaries	-
Bonus Shares	-
Dividends From Current Year Income	-
Sales	-
Revaluation Increase ^(*)	-
Impairment	-
Capital Commitment Payments	-
Balance At The End Of The Year	23,680
Capital Commitments	-
Share Percentage At The End Of The Year (%)	-
	Prior period 31.12.2017
Balance At The Beginning Of The Year	23,680
Movements During The Year	-
Purchases	-
Transfers From Subsidiaries	-
Bonus Shares	-
Dividends From Current Year Income	-
Sales	-
Revaluation Increase	-
Impairment	-
Capital Commitment Payments	-
Balance At The End Of The Year	23,680
Capital Commitments	-
Share Percentage At The End Of The Year (%)	-

^(*) The Parent Bank has signed an agreement with KFH Capital Investment in relation with the transfer of 50% of shares of KT Portföy Yönetimi A.Ş. (Subsidiary) on 5 October 2017. The Bank transferred 50% of its subsidiary's shares amounting to TL 10,000 at price amounting to TL 16,901 to KFH Capital Investment Company on 20 July 2018. The Bank monitors its subsidiary as a joint venture.

Consolidated subsidiaries quoted on stock exchange:

	Current period
Quoted to Domestic Stock Exchanges	53,415
Quoted to International Stock Exchanges	-
Total	53,415
	Prior period
Quoted to Domestic Stock Exchanges	50,173
Quoted to International Stock Exchanges	-
Total	50,173

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1.8.3. Information on the consolidated subsidiaries:

Title	Address (City/Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
KT Sukuk Varlık Kiralama A.Ş.	İstanbul/Turkey	100.00%	100.00%
KT Kira Sertifikaları Varlık Kiralama A.Ş.	İstanbul/Turkey	100.00%	100.00%
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/Turkey	75.00%	%97.61
KT Bank AG ^(*)	Frankfurt/Germany	100.00%	100.00%
KT Sukuk Company Limited ^(**)	GeorgeTown/ Cayman Islands	100.00%	100.00%

^(*) Financial figures as of 30 September 2018 for this entity in the table above are based on the financial information prepared in accordance with the local regulations of the country in which this entity operates.

^(**) KT Sukuk Varlık Kiralama A.Ş. ("Special Purpose Entity"), which had 100% control power established for the issuance of Islamic Bond ("Sukuk") on 24 August 2010 in the absence of a subsidiary of the Parent Bank has been included in the scope of the consolidation.

Sectoral information on consolidated subsidiaries and the related carrying amounts:

	Current period
Banks	445,755
Insurance Companies	-
Factoring Companies	-
Leasing Companies	-
Finance Companies	-
Other Financial Subsidiaries	53,515
	Prior period
Banks	293,694
Insurance Companies	-
Factoring Companies	-
Leasing Companies	-
Finance Companies	-
Other Financial Subsidiaries	60,273

Consolidated subsidiaries that are quoted on the stock exchange: None (31 December 2017-None).

1.8.4. Information on capital adequacies of major subsidiaries:

The shareholder's equity of KT Bank AG, the bank's subsidiary in Germany, calculated as of December 31, 2018 was EUR 84,042,977 and the capital adequacy ratio was 32,46%.

1.8.5. Reasons for consolidation of the consolidated subsidiaries and the methods used in the accounting of these subsidiaries:

The entities that are not considered in the scope of the consolidation due to them not being a financial subsidiary, are accounted at their cost value less impairment, if any.

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1.9. Information on joint ventures (business partnerships) (Net):

	Share of the Bank	Total Asset	Equity	Total Fixed Asset	Current Period Profit/Loss	Previous Period Profit/Loss
Katılım Emeklilik ve Hayat A.Ş. (*) (**)	50%	1,672,519	40,000	7,633	14,497	7,883
KT Portföy Yönetimi A.Ş. (*) (***)	50%	8,082	6,784	114	431	(1,221)

(*) These figures are shown per Turkish Trade Law financial statements as of 31 December 2018.

(**) In accordance with decision of the Bank's Board of Directors on 25 April 2013, Kuveyt Türk Katılım Bankası A.Ş. and Albaraka Türk Katılım Bankası A.Ş. decided to establish the Pension Company in line with main shares. Parent Bank decided to establish that pension company with the equal share amounts with Albaraka Türk Katılım Bankası A.Ş. and that pension company is registered with the trade name "Katılım Emeklilik ve Hayat Anonim Şirketi", 895027 registry numbered dated 17 December 2013 by İstanbul Ticaret Sicil Müdürlüğü.

(***) The Parent Bank has signed an agreement with KFH Capital Investment in relation with the transfer of 50% of shares of KT Portföy Yönetimi A.Ş. (Subsidiary) on 5 October 2017. The Bank transferred 50% of its subsidiary's shares amounting to TL 10,000 at price amounting to TL 16,901 to KFH Capital Investment Company on 20 July 2018. The Bank monitors its subsidiary as a joint venture.

1.10. Information on finance lease receivables (Net):

1.10.1. Presentation of remaining maturities of net finance leases:

	Current period	
	Gross	Net
Less than 1 year	1,674,227	1,307,276
1 to 4 years	910,320	854,221
More than 4 years	297,345	289,202
Total	2,881,892	2,450,699
	Prior period	
	Gross	Net
Less than 1 year	1,601,249	1,325,209
1 to 4 years	615,546	583,034
More than 4 years	178,945	172,487
Total	2,395,740	2,080,730

1.10.2. Net investments in finance leases:

	Current period
Gross Receivable From Finance Leases	2,881,892
Unearned Finance Lease Income (-)	(431,193)
Cancelled Finance Lease Income	-
Net Receivable From Finance Leases	2,450,699
	Prior period
Gross Receivable From Finance Leases	2,395,740
Unearned Finance Lease Income (-)	(315,010)
Cancelled Finance Lease Income	-
Net Receivable From Finance Leases	2,080,730

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1.10.3. Information on finance lease contracts:

The Group determines the settlements of the financial lease agreements in accordance with related legislations. Payment terms and amounts may be rearranged with additional agreements upon customers' requests. On the agreements, the Group gives the customer the option to buy the related property. According to the Financial Lease Law, if a customer does not fulfill its obligations until 60 days, the Group sends a notice to the customer and the Bank takes legal action against the customer if necessary. Non-performing finance lease receivables amounting to TL 9,493 are included in the non-performing loans in the balance sheet (31 December 2017 – TL 5,040).

1.11. Information on derivative financial assets for hedging purposes:

None (31 December 2017 – None).

1.12. Explanations on Tangible Assets (Net)

Current period	Buildings	Leased Tangible Assets	Vehicles	Other Tangible Assets	Total
At End of Prior Period: 31 December 2017					
Cost	234,653	7,957	1,819	390,255	634,684
Accumulated Depreciation (-)	32,575	2,812	788	182,460	218,635
Net Book Value	202,078	5,145	1,031	207,795	416,049
At End of Current Period: 31 December 2018					
Net book value at beginning of period	202,078	5,145	1,031	207,795	416,049
Additions	529	-	45,410	19,797	65,736
Disposals (-)	-	-	-	-	-
Transfers to assets held for sale (-)	-	-	-	1,208	1,208
Transfer from assets held for sale	-	-	-	40,170	40,170
Impairment of Impairment Losses	-	-	-	-	-
Depreciation Expense (-)	(10,252)	804	333	72,675	63,560
Net FX Diff. from subsidiaries abr.	-	-	-	-	-
Reversal of Impairment Losses	-	-	-	-	-
Cost at period end	235,182	7,957	47,229	449,014	739,382
Accumulated depreciation end of period (-)	22,323	3,616	1,121	255,135	282,195
Closing Net Book Value	212,859	4,341	46,108	193,879	457,187

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Prior Period	Buildings	Leased Tangible Assets	Vehicles	Other Tangible Assets	Total
At End of Prior Period: 31 December 2017					
Cost	259,427	7,694	795	312,144	580,060
Accumulated Depreciation (-)	26,936	2,042	680	134,832	164,490
Net Book Value	232,491	5,652	115	177,312	415,570
At End of Current Period: 31 December 2018					
Net book value at beginning of period	232,491	5,652	115	177,312	415,570
Additions	1,684	263	1,024	78,111	81,082
Disposals (-)	26,458	-	-	-	26,458
Transfers to assets held for sale (-)	-	-	-	-	-
Transfer from assets held for sale	-	-	-	-	-
Impairment of Impairment Losses	-	-	-	-	-
Depreciation Expense (-)	5,639	770	108	47,628	54,145
Net FX Diff. from subsidiaries abr.	-	-	-	-	-
Reversal of Impairment Losses	-	-	-	-	-
Cost at period end	234,653	7,957	1,819	390,255	634,684
Accumulated depreciation end of period (-)	32,575	2,812	788	182,460	218,635
Closing Net Book Value	202,078	5,145	1,031	207,795	416,049

1.13. Explanations on Intangible Assets:

1.13.1. Gross carrying value and accumulated amortization balances at beginning and at the end of the period:

	Current Period
Cost	342,421
Accumulated Amortization	(141,656)
Total (net)	200,765
	Prior Period
Cost	290,608
Accumulated Amortization	(121,643)
Total (net)	168,965

1.13.2. Movements of intangible assets

	Current Period
Opening balance	168,965
Additions	118,036
Disposals (-), net	22,648
Depreciation amount (-)	63,588
Closing net book value	200,765
	Prior Period
Opening balance	158,757
Additions	42,893
Disposals (-), net	1,928
Depreciation amount (-)	30,757
Closing net book value	168,965

Intangible assets include computer software and program licenses which are taken for banking systems.

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1.14. Explanations on investment property:

	Current Period
Opening balance	25,419
Additions ^(*)	4,410
Disposals (-), net	-
Depreciation amount (-)	158
Closing net book value	29,671
	Prior Period
Opening balance	-
Additions	25,577
Disposals (-), net	-
Depreciation amount (-)	158
Closing net book value	25,419

The fair value of the investment property is TL 30,900 and the level is classified as level two in the fair value hierarchy.

^(*) It refers to the transfer amount from inventories to investment properties.

1.15. Information on deferred tax asset:

In accordance with the related regulations deferred tax asset calculated as of 31 December 2018 is TL 396,139 (31 December 2017 – TL 157,245) and deferred tax liability is TL 15,456 (31 December 2017 – TL 18,535).

	Current period
Reserve For Employee Benefits	31,297
Retirement Pay Liability	17,412
Deferred Income	55,507
Accruals of derivative financial instruments (net)	30,080
TFRS 9 Provisions	192,935
Precious Metals Valuation Difference	2,031
Carry Forward Financial Losses	34,043
Other	32,834
Deferred Tax Asset	396,139
Difference Between Carrying Value And Tax Base Of Tangible Assets	(7,293)
Revaluation difference of financial assets at fair value through profit or loss	(3,691)
Other	(4,472)
Deferred Tax Liability	(15,456)
Deferred Tax Asset, (Net)	380,683
	Prior period
Reserve For Employee Benefits	20,197
Retirement Pay Liability	16,788
Deferred Income	46,597
Accruals of derivative financial instruments (net)	26,181
Impairment provision for subsidiaries, fixed assets and assets held for sale	36,436
Other	11,046
Deferred tax asset	157,245
Difference Between Carrying Value And Tax Base Of Tangible Assets	(10,044)
Valuation difference for available-for-sale financial assets	(3,556)
Precious metals valuation difference	(652)
Other	(4,283)
Deferred Tax Liability	(18,535)
Deferred Tax Asset, (Net)	138,710

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Table of deferred tax asset movement:

	Current period
As of January 1	138,710
Deferred Tax (Expense)/Income	210,534
Deferred Tax Accounted Under Other Comprehensive Income	40,426
TFRS 9 Opening Effect	(8,987)
Deferred Tax Asset	380,683
	Prior period
As Of January 1	118,111
Deferred Tax (Expense)/Income	14,403
Deferred Tax Accounted Under Other Comprehensive Income	6,196
Deferred Tax Asset	138,710

1.16. Explanations on assets held for sale and related to discontinued operations:

The Group has accounted its assets and assets with their fair value less cost to sell.

	Current period
Opening balance	117,006
Additions	203,974
Transfer from tangible assets	1,208
Disposals (-), net	11,636
Transfer to tangible assets	40,170
Depreciation amount (-)	-
Impairment losses provision (-)	-
Closing net book value	270,382
	Prior period
Opening balance	47,975
Additions	30,957
Transfer from tangible assets	38,853
Disposals (-), net	779
Transfer to tangible assets	-
Depreciation amount (-)	-
Impairment losses provision (-)	-
Closing net book value	117,006

1.17. Information on other assets:

As of balance sheet date, the Bank's other assets amount to TL 2,890,428 (31 December 2017 – TL 860,481). Other assets balance does not exceed 10% of the total assets on the balance sheet excluding off balance sheet commitments.

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2. Explanations and notes related to liabilities

2.1. Information on funds collected:

2.1.1. Information on maturity structure of funds collected:

Current Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real Persons Current Accounts-TL	4,753,832	-	-	-	-	-	-	-	4,753,832
li. Real Persons Profit Sharing Accounts TL	-	4,802,842	7,316,485	424,115	-	229,178	266,378	17,002	13,056,000
lii. Other Current Accounts-TL	3,088,382	-	-	-	-	-	-	-	3,088,382
Public Sector	186,809	-	-	-	-	-	-	-	186,809
Commercial Sector	2,847,456	-	-	-	-	-	-	-	2,847,456
Other Institutions	46,276	-	-	-	-	-	-	-	46,276
Commercial And Other Institutions	-	-	-	-	-	-	-	-	-
Banks And Participation Banks	7,841	-	-	-	-	-	-	-	7,841
Central Bank Of Republic Of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	7,708	-	-	-	-	-	-	-	7,708
Participation Banks	133	-	-	-	-	-	-	-	133
Others	-	-	-	-	-	-	-	-	-
Iv. Profit Sharing Accounts-TL	-	423,645	761,309	112,589	-	246,581	74,182	-	1,618,306
Public Sector	-	146	2,285	-	-	1,388	-	-	3,819
Commercial Sector	-	380,225	698,953	102,196	-	233,421	72,119	-	1,486,914
Other Institutions	-	43,258	60,055	10,342	-	11,763	1,859	-	127,277
Commercial And Other Institutions	-	16	-	51	-	8	204	-	279
Banks And Participation Banks	-	-	16	-	-	1	-	-	17
V. Real Persons Current Accounts-FC	8,316,910	-	-	-	-	-	-	-	8,316,910
Vi. Real Persons Profit Sharing Accounts-FC	-	3,932,410	6,126,127	1,066,450	-	699,639	467,103	993	12,292,722
Vii. Other Current Accounts-FC	3,986,544	-	-	-	-	-	-	-	3,986,544
Commercial Residents In Turkey	3,254,669	-	-	-	-	-	-	-	3,254,669
Commercial Residents In Abroad	635,513	-	-	-	-	-	-	-	635,513
Banks And Participation Banks	96,362	-	-	-	-	-	-	-	96,362
Central Bank Of Republic Of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	96,257	-	-	-	-	-	-	-	96,257
Participation Banks	105	-	-	-	-	-	-	-	105
Others	-	-	-	-	-	-	-	-	-
Viii. Profit Sharing Accounts-FC	-	443,390	2,185,823	237,578	-	86,543	73,106	363	3,026,803
Public Sector	-	39	3	-	-	-	-	-	42
Commercial Sector	-	409,203	2,018,221	232,632	-	86,417	73,020	363	2,819,856
Other Institutions	-	16,693	68,699	106	-	103	-	-	85,601
Commercial And Other Institutions	-	17,448	71,143	4,840	-	23	-	-	93,454
Banks And Participation Banks	-	7	27,757	-	-	-	86	-	27,850
Ix. Precious Metal Funds	2,588,233	1,020,239	1,205,711	212,397	-	61,746	2,174	19	5,090,519
X. Profit Sharing Accounts Special Funds – TL	-	-	-	-	-	-	-	-	-
Residents In Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Xi. Profit Sharing Accounts Special Funds-FC	-	-	-	-	-	-	-	-	-
Residents In Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total	22,733,901	10,622,526	17,595,455	2,053,129	-	1,323,687	882,943	18,377	55,230,018

There are no 7 day notification and accumulative deposit accounts of the Group.

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Prior Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real Persons Current Accounts-TL	4,089,584	-	-	-	-	-	-	-	4,089,584
II. Real Persons Profit Sharing Accounts-TL	-	3,920,064	6,325,033	449,754	-	245,635	194,490	-	11,134,976
III. Other Current Accounts-TL	2,892,984	-	-	-	-	-	-	-	2,892,984
Public Sector	70,537	-	-	-	-	-	-	-	70,537
Commercial Sector	2,775,649	-	-	-	-	-	-	-	2,775,649
Other Institutions	42,423	-	-	-	-	-	-	-	42,423
Commercial And Other Institutions	-	-	-	-	-	-	-	-	-
Banks And Participation Banks	4,375	-	-	-	-	-	-	-	4,375
Central Bank Of Republic Of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	3,875	-	-	-	-	-	-	-	3,875
Participation Banks	500	-	-	-	-	-	-	-	500
Others	-	-	-	-	-	-	-	-	-
IV. Profit Sharing Accounts-TL	-	421,907	960,907	131,032	-	193,737	126,429	-	1,834,012
Public Sector	-	108	34,391	-	-	29	-	-	34,528
Commercial Sector	-	394,722	852,072	122,025	-	187,200	124,735	-	1,680,754
Other Institutions	-	27,062	74,334	9,007	-	6,505	1,694	-	118,602
Commercial And Other Institutions	-	15	96	-	-	3	-	-	114
Banks And Participation Banks	-	-	14	-	-	-	-	-	14
V. Real Persons Current Accounts-FC	5,006,983	-	-	-	-	-	-	-	5,006,983
VI. Real Persons Profit Sharing Accounts-FC	-	2,406,130	4,048,379	857,533	-	426,661	229,940	-	7,968,643
VII. Other Current Accounts-FC	2,824,367	-	-	-	-	-	-	-	2,824,367
Commercial Residents In Turkey	2,444,177	-	-	-	-	-	-	-	2,444,177
Commercial Residents In Abroad	288,612	-	-	-	-	-	-	-	288,612
Banks And Participation Banks	91,578	-	-	-	-	-	-	-	91,578
Central Bank Of Republic Of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	91,578	-	-	-	-	-	-	-	91,578
Participation Banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
VIII. Profit Sharing Accounts-FC	-	336,381	941,748	83,056	-	166,331	55,867	-	1,583,383
Public Sector	-	5	47	-	-	-	-	-	52
Commercial Sector	-	281,489	868,374	62,970	-	165,324	55,781	-	1,433,938
Other Institutions	-	24,687	25,848	48	-	423	-	-	51,006
Commercial And Other Institutions	-	30,195	39,112	20,038	-	584	-	-	89,929
Banks And Participation Banks	-	5	8,367	-	-	-	86	-	8,458
IX. Precious Metal Funds	1,478,006	270,606	1,038,247	87,510	-	45,658	4	-	2,920,031
X. Profit Sharing Accounts Special Funds-TL	-	-	-	-	-	-	-	-	-
Residents In Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit Sharing Accounts Special Funds-FC	-	-	-	-	-	-	-	-	-
Residents In Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total	16,291,924	7,355,088	13,314,314	1,608,885	-	1,078,022	606,730	-	40,254,963

The Group does not have cumulative participation accounts with 7 days notice.

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2.1.2. Information's on current and profit share accounts that are in the scope of Saving Deposit/Saving Deposit Insurance Fund:

2.1.2.1. Current and Participation Accounts Attributable to Real Entities/Persons under the Guarantee of Saving Deposit Insurance Fund Exceeding the Limit of the Deposit Insurance Fund:

	Under The Guarantee Of Saving Deposit Insurance Current Period	Exceeding The Limit Of Saving Deposit Current Period
Real Persons Current And Profit Sharing Accounts That Are Not Subject To Commercial Activities		
TL Accounts	10,848,810	6,836,543
FC Accounts	8,572,475	15,911,931
Foreign Branches' Deposits Under Foreign Authorities' Insurance	-	-
Off-Shore Banking Regions' Under Foreign Authorities' Insurance	-	-
	Under The Guarantee Of Saving Deposit Insurance Prior Period	Exceeding The Limit Of Saving Deposit Prior Period
Real Persons Current And Profit Sharing Accounts That Are Not Subject To Commercial Activities		
TL Accounts	9,730,510	5,440,996
FC Accounts	5,804,410	9,535,405
Foreign Branches' Deposits Under Foreign Authorities' Insurance	-	-
Off-Shore Banking Regions' Under Foreign Authorities' Insurance	-	-

Funds collected by Participation Banks (except for foreign branches) through current and profit share accounts which are opened by real persons and denominated in Turkish Lira or foreign currency with a limit of maximum of TL 100 (including both capital and profit shares) for each person is under the guarantee of Saving Deposit Insurance Fund in accordance with the Banking Law No. 5411 which issued in official gazette no. 25893 on 1 November 2005.

2.1.2.2. If the headquarters of the Bank is abroad and the deposit account in its Turkish branch is in the scope of the insurance policy in the country of the headquarter of the Bank is founded, it should be explained:

The headquarters of the Parent Bank is in Turkey.

2.1.2.3. Current and Profit Share Accounts of the real persons who are not in the scope of Saving Deposits Insurance Fund:

The Parent Bank has no current or profit sharing accounts which are not under the guarantee of the Saving Deposit Insurance Fund except for the participation funds of shareholders, member of Board of Directors, CEO, the Vice Presidents and their first degree relatives.

	Current period
Foreign Branches' Profit Sharing Accounts And Other Accounts	-
Profit Sharing Accounts And Other Accounts Of Controlling Shareholders And Profit Sharing Accounts Of Their Mother, Father, Spouse, Children In Care	-
Profit Sharing Account And Other Accounts Of President And Members Of Board Of Directors, CEO And Vice Presidents And Profit Sharing Accounts Of Their Mother, Father, Spouse And Children In Care	5,677
Profit Sharing Account And Other Accounts In Scope Of The Property Holdings Derived From Crime Defined In Article 282 Of Turkish Criminal Law No:5237 Dated 26 September 2004	-
Profit Sharing Accounts In Participation Banks Which Are Established In Turkey In Order To Engage In Off-Shore Banking Activities Solely	-

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Prior period
Foreign Branches' Profit Sharing Accounts And Other Accounts	-
Profit Sharing Accounts And Other Accounts Of Controlling Shareholders And Profit Sharing Accounts Of Their Mother, Father, Spouse, Children In Care	-
Profit Sharing Account And Other Accounts Of President And Members Of Board Of Directors, CEO And Vice Presidents And Profit Sharing Accounts Of Their Mother, Father, Spouse And Children In Care	4,573
Profit Sharing Account And Other Accounts In Scope Of The Property Holdings Derived From Crime Defined In Article 282 Of Turkish Criminal Law No:5237 Dated 26 September 2004	-
Profit Sharing Accounts In Participation Banks Which Are Established In Turkey In Order To Engage In Off-Shore Banking Activities Solely	-

2.2. Information on derivative financial liabilities:

Negative differences related to the part of derivative financial liabilities at fair value through profit or loss:

	Current period	
	TL	FC
Forward transactions	20,764	1,362
Swap operations	281	41,404
Futures operations	-	-
Options	-	-
Other	-	-
Toplam	21,045	42,766

	Prior period	
	TL	FC
Forward transactions	10,269	4,679
Swap operations	11,177	54,572
Futures operations	-	-
Options	-	-
Other	-	-
Total	21,446	59,251

2.3. Information on funds borrowed:

2.3.1. Information on banks and other financial institutions:

	Current period	
	TL	FC
Loans From The Central Bank Of The Republic Of Turkey	-	-
From Domestic Banks And Institutions	93,394	315,352
From Foreign Banks, Institutions And Funds	-	1,586,550
Total	93,394	1,901,902

	Prior period	
	TL	FC
Loans From The Central Bank Of The Republic Of Turkey	-	-
From Domestic Banks And Institutions	51,243	280,602
From Foreign Banks, Institutions And Funds	58,873	2,996,409
Total	110,116	3,277,011

2.3.2. Information on maturity structure of borrowings:

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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Current period	
	TL	FC
Short-Term	93,394	1,753,713
Medium And Long-Term	-	148,189
Total	93,394	1,901,902

	Prior period	
	TL	FC
Short-Term	110,116	3,113,321
Medium And Long-Term	-	163,690
Total	110,116	3,277,011

2.3.3. Explanations related to the concentrations of the Parent Bank's major liabilities:

All of the borrowings consist of foreign currency loans.

There is no risk concentration of the Parent Bank's current and profit sharing accounts.

2.4. Information on the issued marketable securities:

The Group has the following issued sukuk certificates. The average income rate for the issued marketable securities is 21% for Turkish Lira, 5% for US Dollar, 6% for Malaysian Ringgit. The maturities for the sukuk issued in Turkish Lira are between January 2019 – May 2019, US Dollar between June 2019 – November 2021, and Malaysian Ringgit are between March 2020 – July 2020.

Current Period	TL		FC	
	Short term	Medium long term	Short term	Medium long term
Nominal	1,229,428	345,000	-	6,115,734
Distribution of residual income	100,514	-	-	574,318
Carrying value	1,287,131	347,803	-	6,157,936

Prior Period	TL		FC	
	Short term	Medium long term	Short term	Medium long term
Nominal	1,031,433	45,000	-	4,524,360
Distribution of residual income	40,051	-	-	601,376
Carrying value	1,059,378	45,240	-	4,547,223

2.5. Information on other liabilities and miscellaneous payables:

As of 31 December 2018, sundry creditors amount to TL 1,075,824 (31 December 2017 – TL 345,918), other liabilities amount to TL 261,894 (31 December 2017-TL 200,005). These items are included in the "Other Liabilities" line of the balance sheet and they do not exceed 10% of the balance sheet total.

2.6. Information on finance lease payables (net):

The Group bought some of the information technology equipment through financial lease and the liabilities originated from the agreements are paid in monthly installments to the leasing firms. These agreements do not raise any further liabilities other than already committed payments by the Group.

2.6.1 Information on the changes in agreements and new obligations originating from these changes:

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None (31 December 2017 – None).

2.6.2 Information on Financial Lease Obligations:

None (31 December 2017 – None).

2.6.3. Information on Operational Leases:

The leasing transactions, in which all risks and benefits of the leased asset are held by the lessor, are classified as operational leases. Such transactions consist of rent contracts of branches which may be cancelled by declaration.

There are no significant commitments regarding the changes at the operational lease agreements.

The payments related with operational leases are recognized as expense in the income statement during the period of the agreement in equal installments.

2.6.4. Information on sale and leaseback transactions:

None.

2.7. Information on hedging derivative financial liabilities:

	Current period	
	TL	FC
Fair Value Hedge	-	-
Cash Flow Hedge	-	106,352
Hedge Of Net Investment In Foreign Operations	-	-
Total	-	106,352
	Prior period	
	TL	FC
Fair Value Hedge	-	-
Cash Flow Hedge	-	70,795
Hedge Of Net Investment In Foreign Operations	-	-
Total	-	70,795

2.8. Information on provisions:

2.8.1. Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans: As of 31 December 2018, effect of decrease in exchange rates on foreign currency indexed loans amounting to TL 4,654 (31 December 2017 – TL 19,143) and TL 1,266 for leasing receivables (31 December 2017 – TL 376) is offset against loans and receivables.

2.8.2. Information on other provisions:

	Current period
Provisions For Non-Liquidated Non Cash Loans	240,372
Provisions For Cheque Books	145,911
Provisions From Equity/Profit Sharing Accounts	129,152
Provisions For Promotion Activities For Credit Cards	1,778
Other (*)	54,231
Total	571,444
	Prior period

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Provisions For Non-Liquidated Non Cash Loans	95,685
Provisions For Cheque Books	2,276
Provisions From Equity/Profit Sharing Accounts	30,422
Provisions For Promotion Activities For Credit Cards	1,242
Other ^(*)	72,447
Total	202,072

^(*) Other item includes, in current period TL 13,780 (31 December 2017 – TL 6,915) litigation provision, TL 6,500 (31 December 2017 – TL 6,500) expense provision, TL 29,761 (31 December 2017 – TL 18,472) other provisions and TL 0 (31 December 2017 – TL 40,560) includes provision amount for projected repayment of delay penalties.

2.8.3. Information on provisions for employee benefits:

Provisions for employee benefits consist of reserve for employee termination benefits amounting to, TL 86,818 (31 December 2017 – TL 84,286), vacation pay liability amounting to TL 585 (31 December 2017 – TL 522), performance premium amounting TL 86,617 (31 December 2017 – TL 69,670), retirement bonuses on payment of TL 44,014 (31 December 2017 – TL 23,500) and committee fee amounting to 10,869 TL (31 December 2017 – TL 7,291) and other provision amounting to 175 TL (31 December 2017– 125).

Under the Turkish Labor Law, the Parent Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or retires or earns the right to retire.

The amount payable consists of one month's salary limited to a maximum of TL 5,434 (full amount) (31 December 2017 – TL 4,732) for each year of service. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of its employees. TAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

	Current period
Discount Rate (%)	16,30
Inflation Rate (%)	12,00
Salary Increase Rate (%)	13,00
	Prior period
Discount Rate (%)	11.60
Inflation Rate (%)	8.90
Salary Increase Rate (%)	9.90

Movements in the reserve for employment termination benefits during period are as follows:

	Current period
Balance At The Beginning Of The Period	84,286
Provisions Recognized During The Period	23,455
Paid During The Period	(7,272)
Actuarial Loss	(13,651)
Balances At The End Of The Period	86,818
	Prior period
Balance At The Beginning Of The Period	55,464
Provisions Recognized During The Period	17,566
Paid During The Period	(5,237)
Actuarial Loss	16,493
Balances At The End Of The Period	84,286

2.9. Explanations on tax liability:

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2.9.1. Explanations on current tax liability:

2.9.1.1 Information on tax provisions: As of 31 December 2018, the Group has current tax liability after deducting temporary taxes paid during the period from the provision for corporate income tax amounting to TL 177,652.

	Current period
Provision For Corporate Income Tax	456,489
Prepaid Taxes	(278,837)
Total (*)	177,652
	Prior period
Provision For Corporate Income Tax	199,510
Prepaid Taxes	(143,251)
Total (*)	56,259

(*)Related amount is presented in the current tax liability line, under liabilities.

2.9.1.2. Information on tax payable:

	Current period
Taxation Of Marketable Securities	21,252
Taxation Of Immovable Property	1,569
Banking Insurance Transaction Tax (Bitt)	32,461
Value Added Tax Payable	1,904
Income Tax Deducted From Wages	9,675
Other	1,131
Total	67,992
	Prior period
Taxation Of Marketable Securities	19,651
Taxation Of Immovable Property	1,185
Banking Insurance Transaction Tax (Bitt)	18,431
Value Added Tax Payable	1,349
Income Tax Deducted From Wages	8,192
Other	1,129
Total	49,937

2.9.1.3. Information on premiums (*):

	Current period
Social Security Premiums-Employee	5,640
Social Security Premiums-Employer	6,075
Unemployment Insurance-Employee	404
Unemployment Insurance-Employer	952
Total	13,071

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	Prior period
Social Security Premiums-Employee	4,862
Social Security Premiums-Employer	5,234
Unemployment Insurance-Employee	348
Unemployment Insurance-Employer	801
Total	11,245

(*) Included in sundry creditors line item on the balance sheet.

2.9.1.4. Information on deferred tax liability:

None (31 December 2017 – None).

2.10. Information on held for trade and discontinued activities related tangible assets:

None (31 December 2017 – None).

2.11. Information on subordinated loans:

	Current period	
	TL	FC
From domestic banks	-	-
Other domestic organizations	-	-
From international banks	-	-
Other institutions abroad	-	1,901,210
Total	-	1,901,210

	Prior period	
	TL	FC
From domestic banks	-	-
Other domestic organizations	-	-
From international banks	-	-
Other institutions abroad	-	1,360,338
Total	-	1,360,338

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.

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2.12. Information on shareholders' equity:

2.12.1. Presentation of paid-in capital:

	Current period
Common Shares	3,500,000
Preference Shares	-
Repurchased Shares Amount ^(*)	(2,678)
Total	3,497,322
	Prior period
Common Shares	3,100,000
Preference Shares	-
Repurchased Shares Amount ^(*)	(2,678)
Total	3,097,322

^(*) It represents the Bank's acquisition of its own shares as a result of the Bank's shareholders not using their right of preference according to the commitment made in the capital increase in the Bank.

2.12.2. Amount of paid-in capital, disclosure on whether the bank applies the registered share capital system, and, if so, the ceiling amount of the registered share capital: Registered capital system is not applied in the Parent Bank.

2.12.3. Information on the share capital increases during the period and their sources; other information on increased capital shares in the current period:

Increase Date	Increase Amount	Internal Sources	Legal Reserves Used In The Increase
3 April 2018	400,000	400,000	-

2.12.4. Information on share capital increases from capital reserves during the current period: None (31 December 2017: None).

2.12.5. Possible effect of estimations made for the Group's revenues, profitability and liquidity on equity considering prior period indicators and uncertainties:

Based on the evaluation made considering the prior and current period indicators related to net profit share and commission income, it is observed that the Bank continues its operations profitably.

2.12.6. Summary of privileges given to shares representing the capital:

None (31 December 2017: None).

2.12.7. Information on marketable securities value increase fund:

	Current period	
	TL	FC
From Associates, Subsidiaries And Entities Under Common Control (Joint Vent.)	--	-
Valuation Difference ^(*)	18,702	(51,432)
Foreign Exchange Difference	-	-
Total	18,702	(51,432)

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	Prior period	
	TL	FC
From Associates, Subsidiaries and Entities Under Common Control (Joint Vent.)	-	-
Valuation Difference ^(*)	(23,192)	12,609
Foreign Exchange Difference	-	-
Total	(23,192)	12,609

^(*) Valuation difference is calculated taking the tax effect of the rent certifications in the account, which are classified as "Government Debt Securities" and "Other Marketable Securities" under financial assets at fair value through other comprehensive income in the balance sheet.

2.13. Information on minority shares: The minority shares amount is TL 25,112 (31 December 2017 – 23,054 TL).

3. Explanations and notes related to consolidated off-balance sheet contingencies and commitments

3.1. Explanations on off-balance sheet accounts:

3.1.1. Type and amount of irrevocable commitments

Commitment for credit card limits, as of 31 December 2018 is TL 1,858,018 (31 December 2017 – TL 1,357,354); payment commitments for cheque books are TL 1,136,474 (31 December 2017-1,345,239 TL).

3.1.2. Type and amount of probable losses and obligations arising from off-balance sheet items including below items:

3.1.2.1. Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letter of credits:

As of 31 December 2018, the Group has guarantees and surety ships constituting of TL 10,391,279 (31 December 2017- TL 9,570,179); TL 74,098 (31 December 2017-55,958 TL) acceptances and TL 1,079,876 (31 December 2017 – TL 932,100) letters of credit. Also banks has other acceptances amount of TL 330,827 (31 December 2017 – TL 513,816).

3.1.2.2. Revocable, irrevocable guarantees and other similar commitments and contingencies: There are no other than those explained in 2.i.)

3.1.3. Total amount of non-cash loans:

	Current period	
	TL	FC
Non-Cash Loans Given Against Cash Loans	-	-
With Original Maturity Of 1 Year Or Less	-	-
With Original Maturity Of More Than 1 Year	-	-
Other Non-Cash Loans	11,876,080	-
Total	11,876,080	-

	Prior period	
	TL	FC
Non-Cash Loans Given Against Cash Loans	-	-
With Original Maturity Of 1 Year Or Less	-	-
With Original Maturity Of More Than 1 Year	-	-
Other Non-Cash Loans	11,072,053	-
Total	11,072,053	-

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3.1.4. Information on risk concentration within the sector in non-cash loans:

	Current Period			
	TL	(%)	FC	(%)
Agriculture	59,926	0.93	5,316	0.10
Farming	33,396	0.52	2,812	0.05
Forestry	26,530	0.41	2,504	0.05
Fishery	-	-	-	-
Industry	1,217,028	18.97	843,763	15.46
Mining and quarrying	259,085	4.04	258,253	4.73
Manufacturing industry	551,993	8.60	560,254	10.26
Electricity. gas. Water.	405,950	6.33	25,256	0.46
Construction	2,661,157	41.47	1,225,516	22.45
Services	1,798,834	28.03	2,241,769	41.06
Wholesale and retail trade	862,869	13.45	602,006	11.03
Services of hotels and restaurants	96,061	1.50	80,239	1.47
Transportation and communication	454,742	7.09	1,157,055	21.19
Financial institutions	19,596	0.31	274,267	5.02
Real estate and rental services	24,755	0.39	7,644	0.14
Self-employment services	107	0.00	-	-
Educational services	34,881	0.54	8,732	0.16
Health and social services	305,823	4.77	111,826	2.05
Other	679,688	10.59	1,143,083	20.94
Total	6,416,633	100.00	5,459,447	100.00

	Prior period			
	TL	(%)	FC	(%)
Agriculture	48,091	0.74	5,538	0.12
Farming	20,246	0.31	4,013	0.09
Forestry	27,808	0.43	1,525	0.03
Fishery	37	0.00	-	-
Industry	1,121,211	17.25	799,207	17.48
Mining and quarrying	202,241	3.11	274,708	6.01
Manufacturing industry	463,059	7.12	496,475	10.86
Electricity. gas. Water.	455,911	7.01	28,024	0.61
Construction	2,550,357	39.23	1,146,399	25.08
Services	1,783,281	27.43	1,767,303	38.66
Wholesale and retail trade	745,878	11.47	546,190	11.95
Services of hotels and restaurants	79,406	1.22	36,509	0.80
Transportation and communication	470,117	7.23	774,580	16.95
Financial institutions	6,074	0.09	297,965	6.52
Real estate and rental services	81,800	1.26	3,419	0.07
Self-employment services	92	0.00	-	-
Educational services	33,252	0.51	3,006	0.07
Health and social services	366,662	5.64	105,634	2.31
Other	998,140	15.35	852,526	18.65
Total	6,501,080	100.00	4,570,973	100.00

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3.1.5. Information on non-cash loans classified in groups I and II:

	Group I		Group II	
Current period	TL	FC	TL	FC
Non-cash Loans	6,184,965	5,415,437	231,668	44,010
Letters of guarantee	5,976,533	4,164,743	230,353	19,650
Acceptance loans	17,516	56,582	-	-
Letters of credit	10,720	1,044,004	792	24,360
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other guarantees	180,196	150,108	523	-
	Group I		Group II	
Prior period	TL	FC	TL	FC
Non-cash Loans	6,445,915	4,546,941	55,165	24,032
Letters of guarantee	6,287,400	3,208,256	55,165	19,358
Acceptance loans	2,549	53,409	-	-
Letters of credit	1,143	926,283	-	4,674
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other guarantees	154,823	358,993	-	-

3.2. Explanations on derivative transactions:

	Derivative transactions based on their purpose Current period
Types of trading transactions	
Foreign currency derivative transactions (I):	21,215,164
Forward foreign currency buy/sell transactions	2,408,123
Swap buy/sell transactions	18,807,041
Futures transactions	-
Option buy/sell transactions	-
Derivative transactions related to dividends (II):	-
Term dividend contract buy/sell transactions	-
Dividend swap buy/sell transactions	-
Dividend buy/sell options	-
Futures dividend buy/sell transactions	-
Other derivative buy/sell transactions (III)	3,121
A.Total derivative buy/sell transactions (I+II+III)	21,218,285
Types of derivative transactions for hedging purposes	
Fair value hedge	-
Cash flow hedge	2,165,533
Hedge of net investment in foreign operations	-
B. Total derivative transactions for hedging purposes	2,165,533
Total derivative transactions (A+B)	23,383,818

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	Derivative transactions based on their purpose
	Prior period
Types of trading transactions	
Foreign currency derivative transactions (I):	13,751,124
Forward foreign currency buy/sell transactions	2,542,103
Swap buy/sell transactions	11,209,021
Futures transactions	-
Option buy/sell transactions	-
Derivative transactions related to dividends (II):	-
Term dividend contract buy/sell transactions	-
Dividend swap buy/sell transactions	-
Dividend buy/sell options	-
Futures dividend buy/sell transactions	-
Other derivative buy/sell transactions (III)	7,966
A.Total derivative buy/sell transactions (I+II+III)	13,759,090
Types of derivative transactions for hedging purposes	
Fair value hedge	-
Cash flow hedge	1,565,503
Hedge of net investment in foreign operations	-
B. Total derivative transactions for hedging purposes	1,565,503
Total derivative transactions (A+B)	15,324,593

The Group enters into short term foreign exchange transactions according to the expectations in the market and cash flow. These transactions are generally short term and consist of Turkish Lira selling contracts against foreign exchange and foreign currency against foreign exchange. As of 31 December 2018, the Group has made a commitment to purchase USD 633,559, USD 1,709,657,000, EUR 57,831,000, GBP 10,039,000, and 800,000,000 Malaysian Ringgits in exchange of selling 304,995 USD, 399,261,000 USD, 1,545,406,000 Euro and 89,000 British Pounds. (figures are given in Turkish Lira). (As of 31 December 2017, the Group has made a commitment to purchase 728,960 TL, 1,361,922,000 USD, 81,070,000 Euro, 29,404,000 British Pounds and 800,000,000 Malaysian Ringgits in exchange to sell 963,256 TL, 514,739,000 USD, 964,634,000 Euro and 19,364,000 British Pounds).

3.3. Explanations on credit derivatives and the risks exposed to them:

None.

3.4. Explanations on contingent liabilities and assets:

In accordance with the decision of the Bank's Board of Directors numbered 1117 and dated 21 June 2011, recoverable foreign currency loan granting commitments to real and legal persons and who do not have the unconditional right to utilize these commitment has been translated into Turkish Lira and no longer followed as foreign currency commitments.

3.5. Information on services rendered on behalf of others:

None.

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3.6. Information on the the parent bank's rating given by the international rating agencies

Fitch Rating's October 2018	Ratings
Long-term rating in foreign currency	BB-
Short term rating in foreign currency	B
Local currency long-term rating	BB
Short-term rating in local currency	B
Support Rating	3

4. Disclosures and Footnotes on Consolidated Income Statement

4.1. Information on profit share income:

4.1.1. Information on profit share received from loans:

	Current period	
	TL	FC
Profit Share On Loans	4,637,242	454,166
Short Term Loans	1,405,131	101,091
Medium And Long Term Loans	3,204,900	353,075
Profit Share On Non-Performing Loans	27,211	-
Premiums Received From Resource Utilization		
Support Fund	-	-
	Prior period	
	TL	FC
Profit Share On Loans	3,117,811	225,363
Short Term Loans	806,921	33,377
Medium And Long Term Loans	2,303,217	191,986
Profit Share On Non-Performing Loans	7,673	-
Premiums Received From Resource Utilization		
Support Fund	-	-

4.1.2. Information on profit share received from banks:

	Current period	
	TL	FC
The Central Bank Of The Republic Of Turkey	-	-
Domestic Banks	-	-
Foreign Banks	21,392	150,816
Branches And Head Office Abroad	-	746
Total	21,392	151,562
	Prior period	
	TL	FC
The Central Bank Of The Republic Of Turkey	-	-
Domestic Banks	-	-
Foreign Banks	-	31,929
Branches And Head Office Abroad	-	-
Total	-	31,929

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4.1.3. Information on profit share income from securities portfolio:

The Parent Bank has received TL 27,920 profit financial assets at fair value through profit and loss which is given the details in available for sale financial assets information (1 January – 31 December 2017 – TL 8,771).

The Parent Bank has received TL 390,850 profit share income from rent certificates (sukuk) which is given the details in available for sale financial assets information (1 January – 31 December 2017-TL 271,841).

4.1.4. Information on profit share income received from associates and subsidiaries:

	Current period
Profit share income received from associates and subsidiaries	116
	Prior period
Profit share income received from associates and subsidiaries	5

4.2. Information on profit share expenses:

4.2.1. Profit share expense paid to utilized loans:

	Current period	
	TL	FC
Banks	9,620	36,242
The Central Bank Of The Republic Of Turkey	-	-
Domestic Banks	5,128	10,449
Foreign Banks	4,492	25,793
Branches And Head Office Abroad	-	-
Other Institutions	-	214,853
Total	9,620	251,095
	Prior Period	
	TL	FC
Banks	6,521	47,542
The Central Bank Of The Republic Of Turkey	-	-
Domestic Banks	2,127	8,896
Foreign Banks	4,394	38,646
Branches And Head Office Abroad	-	-
Other Institutions	88,537	54,253
Total	95,058	101,795

4.2.2. Profit share expense given to associates and subsidiaries:

	Current period
Profit Share Expenses Given To Associates And Subsidiaries	1,353
	Prior period
Profit share expenses given to associates and subsidiaries	1,738

4.2.3. Profit share expense paid to securities:

The Group has accrued TL 560,283 for securities issued within 2018 (1 January – 31 December 2017: TL 319,652)

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4.2.4. Distribution of profit share on funds based on maturity of funds:

Current period				Profit Sharing Accounts				
Account Name	Up to 1 month	Up to 3 month	Up to 6 month	Up to 9 month	Up to 1 year	Above 1 year	Accumulated profit sharing accounts	Total
TL								
Collected Funds From Banks Through Current And Profit Share Accounts	-	1	-	-	-	-	-	1
Real Person's Non-Trading Profit Sharing Account	514,291	814,287	52,342	-	27,382	28,968	1,665	1,438,935
Public Sector Profit Sharing Account	652	2,303	-	-	2	-	-	2,957
Commercial Sector Profit Sharing Account	48,623	106,154	16,872	-	1,615	1,256	4	174,524
Other Institutions Profit Sharing Account	6,079	12,536	1,442	-	568	249	-	20,874
Total	569,645	935,281	70,656	-	29,567	30,473	1,669	1,637,291
FC								
Banks	58	1,361	-	-	-	-	-	1,419
Real Person's Non-Trading Profit Sharing Account	77,496	143,945	26,884	-	13,454	8,576	23	270,378
Public Sector Profit Sharing Account	-	-	-	-	-	-	-	-
Commercial Sector Profit Sharing Account	9,697	43,151	3,587	-	4,473	91	4	61,003
Other Institutions Profit Sharing Account	1,932	4,848	398	-	4	-	-	7,182
Precious Metal Accounts	6,658	14,552	1,682	-	743	-	-	23,635
Total	95,841	207,857	32,551	-	18,674	8,667	27	363,617
Grand Total	665,486	1,143,138	103,207	-	48,241	39,140	1,696	2,000,908

Prior Period				Profit Sharing Accounts				
Account Name	Up to 1 month	Up to 3 month	Up to 6 month	Up to 9 month	Up to 1 year	Above 1 year	Accumulated profit sharing accounts	Total
TL								
Collected Funds From Banks Through Current And Profit Share Accounts	-	-	-	-	-	-	-	-
Real Person's Non-Trading Profit Sharing Account	282,508	505,963	37,931	-	18,391	15,657	-	860,450
Public Sector Profit Sharing Account	79	2,610	631	-	-	-	-	3,320
Commercial Sector Profit Sharing Account	29,244	72,596	11,770	-	1,133	871	-	115,614
Other Institutions Profit Sharing Account	2,094	5,976	778	-	249	121	-	9,218
Total	313,925	587,145	51,110	-	19,773	16,649	-	988,602
FC								
Banks	730	144	-	-	-	-	-	874
Real Person's Non-Trading Profit Sharing Account	40,294	69,375	16,005	-	7,964	3,996	-	137,634
Public Sector Profit Sharing Account	-	-	-	-	-	-	-	-
Commercial Sector Profit Sharing Account	4,758	21,395	2,396	-	151	123	-	28,823
Other Institutions Profit Sharing Account	1,669	1,784	454	-	23	97	-	4,027
Precious Metal Accounts	660	9,450	749	-	406	-	-	11,265
Total	48,111	102,148	19,604	-	8,544	4,216	-	182,623
Grand Total	362,036	689,293	70,714	-	28,317	20,865	-	1,171,225

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4.3. Information on dividend income:

	Current period
Financial Assets at Fair Value Through Profit or Loss	-
Financial Assets at Fair Value Through Other Comprehensive Income	-
Other	1,273
Total	1,273
	Prior period
Financial Assets at Fair Value Through Profit or Loss	-
Financial Assets at Fair Value Through Other Comprehensive Income	-
Financial Assets Available for Sale	-
Other	-
Total	-

4.4. Information on trading income/loss (Net):

	Current period
Trading Income/Loss (Net)	539,144
Income	36,464,911
Gain On Capital Market Transactions	21,919
Gain On Derivative Financial Instruments	1,902,772
Foreign Exchange Profit	34,540,220
Losses (-)	(35,925,767)
Losses On Capital Market Transactions	(11,678)
Losses On Derivative Financial Instruments	(1,765,998)
Foreign Exchange Losses	(34,148,091)
	Prior period
Trading Income/Loss (Net)	288,332
Income	26,000,855
Gain On Capital Market Transactions	9,812
Gain On Derivative Financial Instruments	1,789,088
Foreign Exchange Profit	24,201,955
Losses (-)	(25,712,523)
Losses On Capital Market Transactions	(2,852)
Losses On Derivative Financial Instruments	(2,187,322)
Foreign Exchange Losses	(23,522,349)

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4.5. Information on other operating income:

The details of other operating income are presented below. There are no unusual items in the other operating income which materially affect the income of the Bank.

	Current period
Reversal Of Prior Period Provisions	494,061
Income From Sale Of Assets ^(*)	38,166
Income From the Real Estate Sales' Gains by Rent Certificates	-
Rent Income	2,587
Other Income	6,120
Total	540,934
	Prior period
Reversal Of Prior Period Provisions	95,525
Income From Sale Of Assets ^(**)	65,903
Income From the Real Estate Sales' Gains by Rent Certificates	-
Rent Income	2,564
Other Income	22,497
Total	186,489

^(*) Income from the sale of 50% shares of KT Portföy A.Ş.

^(**) Includes income from the liquidation of subsidiary that is Kuwait Turkish Participation Bank Dubai Ltd. amounting to TL 45,977.

4.6. Impairment provisions for the loans and other receivables:

	Current period
Expected Credit Loss	1,949,975
12 Month Expected Credit Loss (Stage 1)	591,962
Significant Increase In Credit Risk (Stage 2)	699,199
Non-Performing Loans (Stage 3)	658,814
Marketable Securities Impairment Expense	1,042
Financial Assets At Fair Value Through Profit Or Loss	979
Financial Assets At Fair Value Through Other Comprehensive Income	63
Impairment Losses From Associates, Subsidiaries And Jointly Controlled Entities	-
Associates	-
Subsidiaries	-
Joint Ventures	-
Other ^(*)	28,547
Total	1,979,564
	Prior Period
Specific Provisions For Loans And Other Receivables	632,352
III. Group Loans And Receivables	153,498
IV. Group Loans And Receivables	132,447
V. Group Loans And Receivables	346,407
Doubtful Commissions, Fees And Other Receivables	1,828
General Provision Expenses	101,046
Provision Expenses From Possible Losses	-
Impairment Provision Of Marketable Securities	385
Financial Assets At Fair Value Through Profit And Loss	385
Investment Securities Available For Sale	-
Impairment Provision Of Associates, Subsidiaries, Joint Ventures And Held To Maturity Investments	-
Associates	-
Subsidiaries	-
Joint Ventures	-
Held To Maturity Investments	-
Other	50,566
Total	786,177

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4.7. Information on other operating expenses:

	Current period
Personnel Expenses	825,999
Provision For Retirement Pay Liability	16,183
Depreciation Expenses Of Fixed Assets	63,560
Impairment Expenses Of Tangible Assets	-
Depreciation Expenses Of Intangible Assets	63,588
Depreciation Expenses Of Assets Held For Sale	-
Other operating expenses	385,837
Rent Expenses	140,164
Maintenance Expenses	42,987
Advertisement Expenses	35,069
Communication Expenses	41,129
Heating, Electricity And Water Expenses	18,751
Cleaning Expenses	6,407
Vehicle Expenses	8,362
Stationery Expenses	9,037
Other Expenses	83,931
Losses On Sales Of Assets	3,829
Deposit Insurance Fund Expenses	102,283
Other	147,144
Total	1,608,423
	Prior period
Personnel Expenses	697,256
Provision For Retirement Pay Liability	12,328
Depreciation Expenses Of Fixed Assets	54,145
Impairment Expenses Of Tangible Assets	30,757
Depreciation Expenses Of Intangible Assets	-
Depreciation Expenses Of Assets Held For Sale	307,869
Other operating expenses	115,263
Rent Expenses	37,989
Maintenance Expenses	28,657
Advertisement Expenses	35,971
Communication Expenses	13,937
Heating, Electricity And Water Expenses	4,894
Cleaning Expenses	6,176
Vehicle Expenses	5,754
Stationery Expenses	59,228
Other Expenses	109
Losses On Sales Of Assets	82,592
Deposit Insurance Fund Expenses	95,857
Total	1,280,913

4.8. Information on profit/loss from continued and discontinued operations before taxes:

The Group's profit before tax increased by 29.7% compared to the previous year and amounted to TL 1,054,406 (1 January-31 December 2017 TL 812,958). TL 3,185,456 of the income before tax (1 January-31 December 2017-TL 2,150,338) consists of net profit share income. TL 367,871 (1 January-31 December 2017-TL 250,785) consists of net fees and commission income. Total other operating expenses amount to 766,241 (1 January-31 December 2017-TL 1,280,913).

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4.9. Information on tax provision for continued and discontinued operations:

As of 31 December 2018, deferred tax charge of the Group is TL 46,249 and current tax provision expense is TL 454,233 (1 January-31 December 2017 – TL 197,654 expense).

4.10. Information on net income/loss from continued and discontinued operations:

There is no profit / loss resulting from the discontinued operations in the post-tax operating profit / loss.

4.11. Information on net income/loss:

4.11.1. The nature and amount of the income and expense items arising from ordinary banking transactions are disclosed if the disclosure of the quality, size and recurrence rate is necessary for an understanding of the Group's performance during the period:

For the year ended December 31, 2018, the net profit share income is TL 3,185,456 (1 January-31 December 2017-TL 2,150,338). Net fee and commission income is TL 367,871 (1 January-31 December 2017-TL 250,785).

4.11.2. Effect of changes in accounting estimates on income statement for the current and, if any for subsequent periods: None (1 January – 31 December 2017 – None).

4.11.3. Profit / loss attributable to minority shares:

	Current period	Prior period
Profit(loss) attributable to minority shares:	1,164	852

4.12. Details of sub accounts comprising at least 20% of other items in income statement, exceeding 10% of total income statement:

As of 31 December 2018, other fees and commissions received is TL 426,031 (31 December 2017 – TL 288,707), TL 123,244 of this amount is related with credit card fees and commissions (31 December 2017 – TL 69,834) and TL 91,787 of this amount is related with POS clearing commissions (31 December 2017– TL 56,034).

As of 31 December 2018, other fees and commissions given is TL 203,798 (31 December 2017 – TL 155,253), TL 107,446 (31 December 2017 – TL 65,391) of this amount is related with POS clearing commissions and installation expenses, TL 18,792 (31 December 2017 – TL 11,805) of this amount is related with fees and commissions paid for credit cards.

5. Explanations and notes related to the consolidated equity statement

5.1. There is no amount of dividends declared after the balance sheet date but before the announcement of the financial statements. The dividend distribution will be decided at the General Assembly meeting and the General Assembly has not been held as of the date of the attached financial statements.

5.2. In the current period, the Parent Bank has paid TL 4,894 dividend to the members of the Board of Directors by a resolution of the General Assembly dated 29 March 2018. In addition, in accordance with the decision taken at the same General Assembly, TL 34,189 legal reserves, extraordinary reserves amounting to TL 234,908, other reserves amounting to TL 12,858 have been added to the capital and added 400,000 TL to the capital.

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6. Explanations and notes related to the consolidated cash flow statement

6.1. Information on cash and cash equivalents:

6.1.1. Factors constituting cash and cash equivalents, accounting policy used in determining these elements:

Cash, effective repository, receivables and bank checks purchased and demand deposits in banks including the Central Bank are considered as "cash", interbank money market placements with original maturities of less than three months and investments in securities with banks and time deposits are defined as "cash equivalents".

6.1.1.1. Cash and cash equivalents at the beginning of the period:

	Current period
Cash	3,472,726
Cash, Effective repository and other	698,688
Demand deposits in banks	2,774,038
Cash equivalent assets	-
Interbank money market	-
Term storage in banks	-
Securities	-
Total cash and cash equivalents	3,472,726
	Prior period
Cash	4,898,436
Effective repository and other	763,391
Demand deposits in banks	4,135,045
Cash equivalent assets	-
Interbank money market	-
Term storage in banks	-
Securities	-
Total cash and cash equivalents	4,898,436

6.1.1.2. Cash and cash equivalents at the end of the period:

	Current period
Cash	6,710,455
Effective repository and other	1,058,399
Demand deposit in banks (up to 3 months)	5,652,056
Cash equivalent assets	-
Interbank money market	-
Term storage in banks	-
Securities	-
Total cash and cash equivalents	6,710,455
	Prior period
Cash	3,472,726
Effective repository and other	698,688
Demand deposit in banks (up to 3 months)	2,774,038
Cash equivalent assets	-
Interbank money market	-
Term storage in banks	-
Securities	-
Total cash and cash equivalents	3,472,726

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6.2. Information on the cash and cash equivalents available to the Group, which are not in the Group's free use, for legal limitations or other reasons:

None (31 December 2017 – None).

6.3. Explanations on other items in the statement of cash flows:

"Other" item with the amount of TL (1,083,433) (1 January-31 December 2017 – TL (891,315)) which is under "Operating profit before the change in assets and liabilities", consists of other operating expenses, other than fees and commissions, non-performing loans and other operating income.

"Net increase / decrease in other assets" item with the amount of TL (2,846,285) (1 January-31 December 2017 – TL (279,341)) which is under "Change in assets and liabilities in banking activities" mainly consists of changes in tax assets and other assets.

"Net increase / decrease in other liabilities" item with the amount of TL 901,761 (1 January-31 December 2017 – TL (386,286)) which is under "Change in assets and liabilities in banking activities" consists of changes in miscellaneous payables, other foreign sources and taxes, duties, fees and premiums to be paid.

6.4. Effect of change in foreign exchange rate on cash and cash equivalents:

The effect of change in foreign exchange rate on cash and cash equivalents is calculated as approximately TL (66,621) as of 31 December 2018 (31 December 2017-(16,107) TL). The effect of the exchange rate on cash and cash equivalents is calculated by multiplying the foreign exchange difference between the date of entry of the cash and the balance sheet date by the related cash amount.

7. Explanations and notes related to the risk group of the Parent Bank

7.1. Information on the volume of transactions relating to the Parent Bank's risk group, outstanding loans and funds collected and income and expenses from the period:

Current period:						
Risk Group Of The Bank (*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships)		Direct And Indirect Shareholders Of The Bank		Other Real Or Legal Persons Included In The Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans And Other Receivables						
Balance At Beginning Of Period	19	447	1,030	786	150,924	917
Balance At End Of Period	35	13,666	1,034	398	204,988	520
Profit Share And Commission Income	-	116	73	11	18,440	4
Prior period:						
Risk Group Of The Bank (*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships)		Direct And Indirect Shareholders Of The Bank		Other Real Or Legal Persons Included In The Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans And Other Receivables						
Balance At Beginning Of Period	14	132	998	16,818	135,364	20,290
Balance At End Of Period	19	447	1,030	786	150,924	917
Profit Share And Commission Income	-	5	83	1	9,719	1

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

7.1.2. Information on current and profit sharing accounts of the Bank's risk group:

Risk Group Of The Bank ^(*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships)	Direct And Indirect Shareholders Of The Bank	Other Real Or Legal Persons Included In The Risk Group
	Current Period	Current Period	Current Period
Current And Profit Sharing Accounts			
Balance At Beginning Of Period	30,010	60,187	417,813
Balance At End Of Period	34,808	35,032	255,239
Profit Share Expense	1,353	3,682	30,709

Risk Group Of The Bank ^(*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships)	Direct And Indirect Shareholders Of The Bank	Other Real Or Legal Persons Included In The Risk Group
	Prior Period	Prior Period	Prior Period
Current And Profit Sharing Accounts			
Balance At Beginning Of Period	18,799	58,441	113,915
Balance At End Of Period	30,010	60,187	417,813
Profit Share Expense	1,738	4,317	13,068

^(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

7.1.3. Information on forward transactions, option contracts and other similar agreements with the Bank's risk group:

Risk Group Of The Bank ^(*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships)		Direct And Indirect Shareholders Of The Bank		Other Real Or Legal Persons Included In The Risk Group	
	Current period	Prior period	Current period	Prior period	Currenperiod	Prior Period
Transactions at Fair Value through Profit or Loss	-	-	-	-	-	-
Balance at the beginning of the period	-	-	574,666	-	-	-
End of period balance	-	-	116	-	-	-
Total Profit / Loss	-	-	-	-	-	-
Hedging Transactions	-	-	-	-	-	-
Balance at the beginning of the period	-	-	-	-	-	-
End of period balance	-	-	-	-	-	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

7.1.4. Information on loans associated with the risk group of the Bank:

Risk Group Of The Bank ^(*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships) Current period	Direct And Indirect Shareholders Of The Bank Current period	Other Real Or Legal Persons Included In The Risk Group Current period
Borrowings			
Balance At Beginning Of Period	-	2,175,759	-
Balance At End Of Period	-	802,108	-
Profit Share Expense	-	84,426	-

Risk Group Of The Bank ^(*)	Investment In Associates, Subsidiaries And Joint Ventures (Business Partnerships) Prior Period	Direct And Indirect Shareholders Of The Bank Prior Period	Other Real Or Legal Persons Included In The Risk Group Prior Period
Borrowings			
Balance At Beginning Of Period	-	2,954,769	-
Balance At End Of Period	-	2,175,759	-
Profit Share Expense	-	48,678	-

7.2. Information on remunerations provided to top management:

As of 1 January – 31 December 2018, the Parent Bank has paid TL 31,813 to top management (1 January – 31 December 2017-TL 29,814).

8. Information on domestic, foreign, off-shore branches and foreign representative offices of the Parent Bank

8.1. Information on the Parent Bank's domestic and foreign branches and representative offices:

	Number	Number of employees			
Domestic branch ^(*)	414	5,868			
			Country		
Overseas representations				Total Assets (in thousand TL)	Legal Capital (in USD)
Overseas bank	4	87	Germany	2,246,657	96,266,115
Off-shore branches	1	3	Bahrain ^(**)	4,231,098	-
Overseas branch					

^(*) The number of personnel working in the Head Office, Operations Center and Regional Directorates is not included in the number of employees in the Domestic Branch.

^(**) The Bahrain Branch is controlled by the Central Bank of Bahrain and its total assets as of 31.12.2018 is TL 4,231,098.

8.2. Information on opening or closing branches or representative offices in Turkey and abroad by the Parent Bank

In 2018, the Group opened 17 domestic (2017-14) branches. In 2018, the Group closed 1 (2017-1) branch in Turkey.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

9. Disclosures about the matters after the balance sheet

The Board of Directors of the Parent Bank decided to submit the proposal for the use of TL 500,000 from the profit of 2018 in the capital increase to be made from internal sources at the meeting dated January 29, 2019 to the approval of the ordinary general assembly.

In January 2019, The Bank has exported three different sukuks via its subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş.. With 105 days maturity, TL 470,000 Nominal, 21.50% borrowing rate in 15 January 2019, with 130 days maturity, TL 65,000 nominal, 21.70% borrowing rate in 25 January 2019, with 101 days maturity, TL 300,000 nominal, 21.00% borrowing rate, in 29 January 2019.

As a result of the decision to acquire the Kuwait Finance House (KFH), which is a shareholder of the Parent Bank, by acquiring the AUB B.S.C Bank in Bahrain, the Bank has started to perform financial due diligence assessments on the Bank.

SECTION SIX OTHER EXPLANATIONS AND DISCLOSURES

1. Other matters which must be explained in terms of explicitness, interpretability and understandability of the balance sheet

None.

SECTION SEVEN INDEPENDENT AUDITORS' REPORT

1. Explanations on the audit report

The unconsolidated financial statements have been reviewed by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of Deloitte Touche Tohmatsu Limited) and the independent auditors' report dated 7 March 2019 is presented preceding the financial statements.

2. Notes and disclosures prepared by the independent auditor

None.

Contact Information and Branch Directory

Head Office

Büyükdere Cad. No: 129/1
Esentepe 34394 Şişli/Istanbul
Tel: +90 212 354 11 11 (pbx)
Fax: +90 212 354 12 12

Kuveyt Türk Banking Base:

Cumhuriyet Mah.Özgürlük Cad.
No:11/A Çayırova/Kocaeli
Tel: +90 262 723 55 55
Fax: +90 262 723 56 56

Kuveyt Türk Website : www.kuveytturk.com.tr
E-Mail : musterimemnuniyeti@kuveytturk.com.tr
Trade Register Number: 250489
Mersis Number : 0600002681400074
Call Center : 444 0 123 / 0850 251 0 123

Local Branch Directory

Kuveyt Türk has a total of 414 branches across Turkey. More information about these local branches can be found by clicking on the following link to the Bank's website.

<https://www.kuveytturk.com.tr/en/branches-and-atms>

Overseas Access Points

KT Bank AG - Frankfurt Branch

Schillerstraße 19-25-60313 Frankfurt am Main/GERMANY
Tel : +49 69 920 39 16-0
Fax: +49 69-9203916-99

KT Bank AG - Berlin Branch

Leipziger Straße 26-10117 Berlin/GERMANY
Tel : +49 30 209 15 76-0
Fax: +49 30 209 15 76-99

KT Bank AG-Mannheim Branch

U1, 9-68161 Mannheim GERMANY
Tel : +49 62 172 73 85-0
Fax: +49 62 172 73 85-45

KT Bank AG - Cologne Branch

Venloer Straße 160 – 50823 Cologne/GERMANY
Tel : +49 221 1792595-0
Fax: +49 221 1792595-29

Bahrain Branch

Dilmun Tower (A), 121 Government Avenue P.O.Box 1363 Manama/KINGDOM OF BAHRAIN
Tel : +973 17 20 11 11
Fax: +973 17 22 33 25

