

**KUVEYT TÜRK KATILIM BANKASI
ANONİM ŐİRKETİ AND ITS FINANCIAL SUBSIDIARIES**

**INDEPENDENT AUDITOR'S
REPORT, CONSOLIDATED FINANCIAL
STATEMENTS AND NOTES
FOR THE YEAR ENDED
31 DECEMBER 2016**

*Translated into English
from the Original Turkish Report*

**(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR’S REPORT ORIGINALLY ISSUED IN TURKISH)**

INDEPENDENT AUDITOR’S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. (“the Bank”) and its consolidated subsidiaries (together will be referred as “ the Group”), which comprise the consolidated balance sheet as at 31 December 2016, 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 a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

The Bank Management is responsible for the preparation and fair presentation of the consolidated financial statements 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 Accounting Standards for the matters not legislated by the aforementioned 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the regulation on “Independent Auditing of Banks” published in the Official Gazette dated 2 April 2015 with No. 29314 and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority (“POA”). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Katılım Bankası A.Ş. and its consolidated subsidiaries as at 31 December 2016, and of its their financial performance and its their cash flows for the year then ended in accordance with the BRSA Accounting and Reporting Regulations.

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 2016 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.

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 and its consolidated subsidiaries’ 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**

Müjde Şehsuvaroğlu
Partner
İstanbul, 28 February 2017

THE CONSOLIDATED FINANCIAL REPORT OF KUVEYT TÜRK KATILIM BANKASI A.Ş.

AS OF DECEMBER 31, 2016

Address of the head office : Büyükdere Cad. No:129/1 34394 Esentepe / İSTANBUL
Phone number : 0212 354 11 11
Facsimile number : 0212 354 12 12
Web page : www.kuveytturk.com.tr
E-mail address : kuveytturk@kuveytturk.com.tr

The consolidated financial report 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
- FOOTNOTES AND EXPLANATIONS ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITORS' REPORT
- ANNUAL 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	Jointly Controlled Entities
1.	Kuwait Turkish Participation Bank Dubai LTD.	-	Katılım Emeklilik ve Hayat A.Ş.
2.	KT Sukuk Varlık Kiralama A.Ş.	-	-
3.	KT Kira Sertifikaları Varlık Kiralama A.Ş.	-	-
4.	Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	-	-
5.	KT Bank AG	-	-
6.	KT Portföy Yönetimi A.Ş.	-	-
7.	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.

Hamad Abdulmohsen AL MARZOUQ Chairman of the Board of Directors	Adnan ERTEM Vice Chairman of BOD And Head of the Audit Committee	Ahmad S. 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

Index

Section One General information

I.	History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status	1
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	1
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 Shareholding in the Bank	1
IV.	Information on qualified shareholders	2
V.	Summary information of the Bank's services and field of operations	2
VI.	Summary information of the Parent Bank's services and field of operations	2
VII.	Current or likely actual legal barriers to immediate transfer of equity or repayment of debts between Parent Bank and its subsidiaries	2

Section Two The consolidated financial statements

I.	Consolidated balance sheet (Statement of financial position)	3
II.	Consolidated statement of off-balance sheet commitments and contingencies	5
III.	Consolidated income statement (Statement of Income/ Loss)	6
IV.	Consolidated statement of profit and loss accounted under equity (Statement of Other Comprehensive Income and Loss)	7
V.	Consolidated statement of changes in shareholders' equity	8
VI.	Consolidated statement of cash flows statement	10
VII.	Consolidated Statement of Profit Distribution	11

Section Three Accounting principles

I.	Explanations on basis of presentation	12
II.	Explanations on strategy of using financial instruments and foreign currency transactions	12
III.	Information about the Parent Bank and its Consolidated Subsidiaries	13
IV.	Explanations on forward transactions and option contracts and derivative instruments	14
V.	Explanations on profit share income and expense	15
VI.	Explanations on fees and commission income and expenses	15
VII.	Explanations on financial assets	15
VIII.	Explanations on impairment of financial assets	16
IX.	Explanations on offsetting of financial assets and liabilities	17
X.	Explanations on sale and repurchase agreements and lending of securities	17
XI.	Explanations on assets held for sale and discontinued operations and related liabilities	18
XII.	Explanations on goodwill and other intangible assets	18
XIII.	Explanations on tangible assets	19
XIV.	Explanations on leasing transactions	19
XV.	Explanations on provisions and contingent liabilities	20
XVI.	Explanations on liabilities relating to employee benefits	20
XVII.	Explanations on taxation	21
XVIII.	Explanations on additional disclosures on borrowings	22
XIX.	Explanations on share certificates issued	23
XX.	Explanations on acceptances and availed drafts	23
XXI.	Explanations on government grants	23
XXII.	Explanations on segment reporting	23
XXIII.	Explanations on other matters	23
XXIV.	Additional paragraph for convenience translation	23

Section Four Information on financial structure

I.	Explanations on consolidated the capital adequacy standard ratio	24
II.	Explanations on consolidated credit risk	31
III.	Explanations on consolidated market risk	45
IV.	Explanations on consolidated currency risk	45
V.	Explanations on position risk of equity securities in banking book	47
VI.	Explanations on consolidated leverage ratio	54
VII.	Explanations on consolidated fair values of financial assets and liabilities	56
VIII.	Explanations on the activities carried out on behalf and account of other persons	56
IX.	Explanations on consolidated risk management	56
X.	Explanations on consolidated business segments	74

Section Five Explanations and notes on the consolidated financial statements

I.	Explanations and notes related to assets	76
II.	Explanations and notes related to liabilities	95
III.	Explanations and notes related to off-balance sheet commitments	105
IV.	Explanations and disclosures related to income statement	108
V.	Statement of changes in shareholders' equity	113
VI.	Explanations and notes related to cash flow statement	114
VII.	Explanations and notes related to the risk group of the Bank	116
VIII.	Domestic, foreign and off-shore branches or equity investments, and foreign representative offices	117
IX.	Significant events and matters arising subsequent to balance sheet date	118

Section Six Other Explanations and Disclosures

I.	Other matters which must be explained in terms of explicitly, interpretability and understandability of the balance sheet	118
----	---	-----

Section Seven Independent Auditors' Report

I.	Explanations on the independent auditors' report	118
II.	Notes and disclosures prepared by the independent auditors	118

Section Eight Consolidated Annual Report

I.	Explanations on consolidated annual report	119
----	--	-----

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(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 March 31, 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 April 26, 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, Kuveyt Turkish Participation Bank Dubai Ltd. which is 100% owned by the Bank was established in November, 2009. 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 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 2015 , 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	%0.0556
Ahmet KARACA	Assistant General Manager and Chief Financial Officer	12/07/2006		Master	%0.0041
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

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 2015 – 0.11%).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Information on qualified shareholders:

Name / Commercial Name	Share amount (Nominal)	Shareholding percentage	Paid shares (Nominal)	Unpaid shares
Kuwait Finance House	1,736,531	%62.24	1,736,531	-
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	522,267	%18.72	522,267	-
Total	2,258,798	%80.96	2,258,798	-

As of 31 December 2016, the shares of parent shareholder of the Parent Bank, Kuwait Finance House (“KFH”) are 51.44% 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, and 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 2016, the Group is operating through 391 domestic branches (31 December 2015 – 362) with 5,691 employees (31 December 2015 – 5,542). 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 Cash Flows Statement
- VII. Consolidated Statement of Profit Distribution

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. CONSOLIDATED BALANCE SHEET-ASSETS (STATEMENT OF FINANCIAL POSITION)

		Audited Current Period 31.12.2016			Audited Prior Period 31.12.2015			
	Note	TL	FC	Total	TL	FC	Total	
I.	CASH AND BALANCES WITH THE CENTRAL BANK	(I-a)	695,627	7,630,187	8,325,814	662,376	6,950,238	7,612,614
II.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	(I-b)	36,056	125,663	161,719	12,302	76,312	88,614
2.1	Held for trading financial assets		36,056	125,663	161,719	12,302	76,312	88,614
2.1.1	Public sector debt securities		10,760	36,148	46,908	100	-	100
2.1.2	Equity securities		-	-	-	-	-	-
2.1.3	Derivative financial assets held for trading		22,217	87,833	110,050	11,995	32,613	44,608
2.1.4	Other marketable securities		3,079	1,682	4,761	207	43,699	43,906
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	(I-c)	26,887	4,753,493	4,780,380	10,342	3,619,174	3,629,516
IV.	MONEY MARKET PLACEMENTS		-	-	-	-	-	-
V.	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(I-d)	1,835,182	1,917,545	3,752,727	1,573,904	781,195	2,355,099
5.1	Equity securities		10,325	43,160	53,485	9,571	55,244	64,815
5.2	Public sector debt securities		1,821,991	1,500,041	3,322,032	1,560,223	347,953	1,908,176
5.3	Other marketable securities		2,866	374,344	377,210	4,110	377,998	382,108
VI.	LOANS AND RECEIVABLES	(I-e)	23,266,913	5,367,770	28,634,683	21,565,734	4,423,307	25,989,041
6.1	Loans and receivables		23,104,574	5,368,014	28,472,588	21,441,275	4,421,858	25,863,133
6.1.1	Loans to risk group of the Bank		73,485	62,891	136,376	76,162	51,462	127,624
6.1.2	Public sector debt securities		-	-	-	-	-	-
6.1.3	Other		23,031,089	5,305,123	28,336,212	21,365,113	4,370,396	25,735,509
6.2	Non-performing loans		748,062	552	748,614	442,519	13,796	456,315
6.3	Specific provisions (-)		585,723	796	586,519	318,060	12,347	330,407
VII.	HELD TO MATURITY INVESTMENTS (Net)	(I-f)	-	-	-	-	-	-
VIII.	INVESTMENTS IN ASSOCIATES (Net)	(I-g)	-	-	-	-	-	-
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)	(I-h)	23,680	-	23,680	22,930	-	22,930
9.1	Unconsolidated financial subsidiaries		-	-	-	-	-	-
9.2	Unconsolidated non-financial subsidiaries		23,680	-	23,680	22,930	-	22,930
X.	ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)	(I-i)	15,301	-	15,301	8,378	-	8,378
10.1	Accounted for under equity method		15,301	-	15,301	8,378	-	8,378
10.2	Unconsolidated		-	-	-	-	-	-
10.2.1	Financial subsidiaries		-	-	-	-	-	-
10.2.2	Non-financial subsidiaries		-	-	-	-	-	-
XI.	FINANCE LEASE RECEIVABLES	(I-j)	1,104,588	439,955	1,544,543	947,273	235,587	1,182,860
11.1	Finance lease receivables		1,241,824	503,366	1,745,190	1,084,062	278,938	1,363,000
11.2	Operating lease receivables		-	-	-	-	-	-
11.3	Other		-	-	-	-	-	-
11.4	Unearned income (-)		137,236	63,411	200,647	136,789	43,351	180,140
XII.	DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(I-k)	-	-	-	-	-	-
12.1	Fair value hedge		-	-	-	-	-	-
12.2	Cash flow hedge		-	-	-	-	-	-
12.3	Hedge of net investment risks in foreign operations		-	-	-	-	-	-
XIII.	TANGIBLE ASSETS (Net)		439,614	5,558	445,172	456,989	4,653	461,642
XIV.	INTANGIBLE ASSETS (Net)		95,328	45,138	140,466	78,136	41,204	119,340
14.1	Goodwill		-	-	-	-	-	-
14.2	Other		95,328	45,138	140,466	78,136	41,204	119,340
XV.	INVESTMENT PROPERTIES (Net)		-	-	-	-	-	-
XVI.	TAX ASSET	(I-l)	118,111	-	118,111	107,150	-	107,150
16.1	Current tax asset		-	-	-	-	-	-
16.2	Deferred tax asset		118,111	-	118,111	107,150	-	107,150
XVII.	ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		47,975	-	47,975	32,640	-	32,640
17.1	Held for sale		47,975	-	47,975	32,640	-	32,640
17.2	Discontinued operations		-	-	-	-	-	-
XVIII.	OTHER ASSETS	(I-m)	336,264	399,200	735,464	379,304	105,868	485,172
TOTAL ASSETS			28,041,526	20,684,509	48,726,035	25,857,458	16,237,538	42,094,996

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 2016
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. CONSOLIDATED BALANCE SHEET – LIABILITIES AND EQUITY (STATEMENT OF FINANCIAL POSITION)

	Note	Audited Current period 31.12.2016			Audited Prior Period 31.12.2015		
		TL	FC	Total	TL	FC	Total
I. FUND COLLECTED	(II-a)	17,920,145	14,092,833	32,012,978	14,506,929	13,618,371	28,125,300
1.1 Funds from risk group of the Bank		73,536	117,619	191,155	76,312	131,124	207,436
1.2 Other		17,846,609	13,975,214	31,821,823	14,430,617	13,487,247	27,917,864
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(II-b)	40,580	79,147	119,727	9,962	61,561	71,523
III. FUNDS BORROWED	(II-c)	59,080	3,215,662	3,274,742	65,698	4,195,945	4,261,643
IV. MONEY MARKET BALANCES		1,219,873	-	1,219,873	711,542	-	711,542
MARKETABLE SECURITIES ISSUED (Net)	(II-d)	580,571	4,174,842	4,755,413	602,602	3,033,517	3,636,119
VI. SUNDRY CREDITORS	(II-e)	133,655	35,495	169,150	109,145	17,144	126,289
VII. OTHER LIABILITIES	(II-e)	416,174	23,611	439,785	426,782	30,070	456,852
VIII. FINANCE LEASE PAYABLES	(II-f)	-	226	226	-	131	131
8.1 Finance lease payables		-	265	265	-	145	145
8.2 Operating lease payables		-	-	-	-	-	-
8.3 Other		-	-	-	-	-	-
8.4 Deferred finance lease expenses (-)		-	39	39	-	14	14
IX. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	(II-g)	-	137,829	137,829	-	98,650	98,650
9.1 Fair value hedge		-	-	-	-	-	-
9.2 Cash flow hedge		-	137,829	137,829	-	98,650	98,650
9.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
X. PROVISIONS	(II-h)	455,692	127,312	583,004	427,667	104,938	532,605
10.1 General loan loss provisions		238,276	80,549	318,825	261,944	72,174	334,118
10.2 Restructuring provisions		-	-	-	-	-	-
10.3 Reserve for employee benefits		129,223	15	129,238	106,460	410	106,870
10.4 Insurance technical reserves (net)		-	-	-	-	-	-
10.5 Other provisions		88,193	46,748	134,941	59,263	32,354	91,617
XI. TAX LIABILITY	(II-i)	27,842	-	27,842	36,477	-	36,477
11.1 Current tax liability		27,842	-	27,842	36,477	-	36,477
11.2 Deferred tax liability		-	-	-	-	-	-
XII. PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		-	-	-	-	-	-
12.1 Held for sale		-	-	-	-	-	-
12.2 Discontinued operations		-	-	-	-	-	-
XIII. SUBORDINATED LOANS	(II-j)	-	1,981,646	1,981,646	-	589,734	589,734
XIV. SHAREHOLDERS' EQUITY	(II-k)	4,091,183	(87,363)	4,003,820	3,474,757	(26,626)	3,448,131
14.1 Paid-in capital		2,787,322	-	2,787,322	2,527,322	-	2,527,322
14.2 Capital reserves		(65,314)	(30,347)	(95,661)	(14,116)	(3,831)	(17,947)
14.2.1 Share premium		24,208	-	24,208	24,208	-	24,208
14.2.2 Share cancellation profits		-	-	-	-	-	-
14.2.3 Marketable securities revaluation reserve		(4,933)	(30,347)	(35,280)	9,225	(3,831)	5,394
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)		(70,836)	-	(70,836)	(32,633)	-	(32,633)
14.2.9 Value increase on assets held for resale		-	-	-	-	-	-
14.2.10 Other capital reserves		(13,753)	-	(13,753)	(14,916)	-	(14,916)
14.3 Profit reserves		741,764	-	741,764	503,247	(491)	502,756
14.3.1 Legal reserves		122,861	-	122,861	100,287	-	100,287
14.3.2 Status reserves		-	-	-	-	-	-
14.3.3 Extraordinary reserves		351,949	-	351,949	241,553	-	241,553
14.3.4 Other profit reserves		266,954	-	266,954	161,407	(491)	160,916
14.4 Profit or loss		607,418	(57,016)	550,402	446,046	(22,304)	423,742
14.4.1 Prior period income/(losses)		1,365	(22,304)	(20,939)	(17,060)	14,784	(2,276)
14.4.2 Current period income/(losses)		606,053	(34,712)	571,341	463,106	(37,088)	426,018
14.5 Minority shares	(II-l)	19,993	-	19,993	12,258	-	12,258
TOTAL LIABILITIES AND EQUITY		24,944,795	23,781,240	48,726,035	20,371,561	21,723,435	42,094,996

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
STATEMENT OF CONSOLIDATED OFF-BALANCE SHEET COMMITMENTS AND
CONTINGENCIES AS OF 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES

	Note	Audited Current period 31.12.2016			Audited Prior period 31.12.2015		
		TL	FC	Total	TL	FC	Total
A. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (I+II+III)		45,504,238	19,739,616	65,243,854	33,843,259	16,526,496	50,369,755
I. GUARANTEES (III-a)		5,177,182	4,712,035	9,889,217	4,637,394	4,319,484	8,956,878
1.1 Letters of guarantees		5,026,495	3,089,530	8,116,025	4,607,569	2,732,647	7,340,216
1.1.1 Guarantees subject to state tender law		163,646	-	163,646	153,636	273	153,909
1.1.2 Guarantees given for foreign trade operations		451,059	220,807	671,866	569,151	276,734	845,885
1.1.3 Other letters of guarantee		4,411,790	2,868,723	7,280,513	3,884,782	2,455,640	6,340,422
1.2 Bank loans		2,071	49,973	52,044	7,656	76,452	84,108
1.2.1 Import letter of acceptances		2,071	49,973	52,044	7,656	76,452	84,108
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letter of credits		188	1,019,598	1,019,786	177	1,029,087	1,029,264
1.3.1 Documentary letter of credits		78	302,149	302,227	78	315,930	316,008
1.3.2 Other letter of credits		110	717,449	717,559	99	713,157	713,256
1.4 Pre-financing given as guarantee		-	25,642	25,642	-	21,290	21,290
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Republic of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Other guarantees		148,428	527,292	675,720	21,992	460,008	482,000
1.7 Other collaterals		-	-	-	-	-	-
II. COMMITMENTS (III-a)		34,594,651	711,955	35,306,606	27,214,987	481,365	27,696,352
2.1 Irrevocable commitments		2,569,656	711,955	3,281,611	2,311,549	481,365	2,792,914
2.1.1 Forward asset purchase commitments		316,785	710,168	1,026,953	231,210	481,365	712,575
2.1.2 Share capital commitment to associates and subsidiaries		-	-	-	-	-	-
2.1.3 Loan granting commitments		151,838	-	151,838	304,107	-	304,107
2.1.4 Securities underwriting commitments		-	-	-	-	-	-
2.1.5 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.6 Payment commitment for checks		1,178,750	-	1,178,750	1,018,655	-	1,018,655
2.1.7 Tax and fund liabilities from export commitments		99	-	99	99	-	99
2.1.8 Commitments for credit card expenditure limits		904,427	-	904,427	739,721	-	739,721
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	1,787	19,544	17,757	-	17,757
2.2 Revocable commitments		32,024,995	-	32,024,995	24,903,438	-	24,903,438
2.2.1 Revocable loan granting commitments		32,024,995	-	32,024,995	24,903,438	-	24,903,438
2.2.2 Other revocable commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS		5,732,405	14,315,626	20,048,031	1,990,878	11,725,647	13,716,525
3.1 Derivative financial instruments for hedging purposes		-	1,391,124	1,391,124	-	1,172,816	1,172,816
3.1.1 Fair value hedge		-	-	-	-	-	-
3.1.2 Cash flow hedge		-	1,391,124	1,391,124	-	1,172,816	1,172,816
3.1.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2 Held for trading transactions		5,732,405	12,924,502	18,656,907	1,990,878	10,552,831	12,543,709
3.2.1 Forward foreign currency buy/sell transactions		1,499,492	1,909,112	3,408,604	1,139,111	2,027,716	3,166,827
3.2.1.1 Forward foreign currency transactions-buy		712,215	995,591	1,707,806	550,697	1,041,921	1,592,618
3.2.1.2 Forward foreign currency transactions-sell		787,277	913,521	1,700,798	588,414	985,795	1,574,209
3.2.2 Other forward buy/sell transactions		4,232,913	11,015,390	15,248,303	851,767	8,525,115	9,376,882
3.3 Other		-	-	-	-	-	-
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)		205,775,245	106,164,950	311,940,195	168,473,267	89,309,104	257,782,371
IV. ITEMS HELD IN CUSTODY		7,081,056	2,528,760	9,609,816	5,545,140	1,330,898	6,876,038
4.1 Assets under management		20,794	-	20,794	1	-	1
4.2 Investment securities held in custody		738,025	58,268	796,293	-	-	-
4.3 Checks received for collection		5,292,095	539,190	5,831,285	4,698,688	482,005	5,180,693
4.4 Commercial notes received for collection		1,030,142	144,880	1,175,022	846,451	105,406	951,857
4.5 Other assets received for collection		-	-	-	-	-	-
4.6 Assets received for public offering		-	-	-	-	-	-
4.7 Other items under custody		-	-	-	-	-	-
4.8 Custodians		-	1,786,422	1,786,422	-	743,487	743,487
V. PLEDGED ITEMS		198,682,550	103,595,106	302,277,656	162,916,488	87,944,184	250,860,672
5.1 Marketable securities		222,995	63,991	286,986	351,154	53,770	404,924
5.2 Guarantee notes		101,921	1,421,085	1,523,006	101,988	1,174,760	1,276,748
5.3 Commodity		3,962,735	640,558	4,603,293	3,362,451	538,357	3,900,808
5.4 Warranty		-	-	-	-	-	-
5.5 Properties		84,503,198	1,815,288	86,318,486	71,286,808	618,846	71,905,654
5.6 Other pledged items		109,891,701	99,654,184	209,545,885	87,814,087	85,558,451	173,372,538
5.7 Pledged items-depository		-	-	-	-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		11,639	41,084	52,723	11,639	34,022	45,661
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		251,279,483	125,904,566	377,184,049	202,316,526	105,835,600	308,152,126

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED
31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. CONSOLIDATED INCOME STATEMENT (STATEMENT OF INCOME / LOSS)

		Current Period Audited 01.01 – 31.12.2016	Prior Period Audited 01.01- 31.12.2015
		Note	
I.	PROFIT SHARE INCOME		
1.1	Profit share on loans	3,141,112	2,590,094
1.2	Profit share on reserve deposits	2,751,353	2,293,193
1.3	Profit share on banks	25,600	9,234
1.4	Profit share on money market placements	24,225	21,761
1.5	Profit share on marketable securities portfolio	769	-
1.5.1	Held-for-trading financial assets	205,883	165,423
1.5.2	Financial assets at fair value through profit and loss	-	-
1.5.3	Available-for-sale financial assets	5,045	316
1.5.4	Investments held-to-maturity	200,838	165,107
1.6	Finance lease income	-	-
1.7	Other profit share income	110,258	78,646
		23,024	21,837
II.	PROFIT SHARE EXPENSE		
2.1	Expense on profit sharing accounts	1,443,898	1,099,921
2.2	Profit share expense on funds borrowed	918,888	717,946
2.3	Profit share expense on money market borrowings	195,311	129,990
2.4	Expense on securities issued	74,154	51,895
2.5	Other profit share expense	255,545	200,090
		-	-
III.	NET PROFIT SHARE INCOME (I - II)	1,697,214	1,490,173
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSE		
4.1	Fees and commissions received	154,660	133,888
4.1.1	Non-cash loans	316,072	261,354
4.1.2	Other	91,003	82,053
4.2	Fees and commissions paid	225,069	179,301
4.2.1	Non-cash loans	161,412	127,466
4.2.2	Other	3,231	200
		158,181	127,266
V.	DIVIDEND INCOME	509	-
VI.	NET TRADING INCOME		
6.1	Capital market transaction gains / (losses)	330,734	203,777
6.2	Gains/ (losses) from derivative financial instruments	7,871	6,263
6.3	Foreign exchange gains / (losses)	155,429	42,448
		167,434	155,066
VII.	OTHER OPERATING INCOME	177,574	144,022
VIII.	NET OPERATING INCOME (III+IV+V+VI+VII)	2,360,691	1,971,860
IX.	PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)		
		514,113	441,083
X.	OTHER OPERATING EXPENSES (-)		
		1,137,444	988,918
XI.	NET OPERATING INCOME/(LOSS) (VIII-IX-X)	709,134	541,859
XII.	AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER	-	-
XIII.	GAIN / (LOSS) ON EQUITY METHOD	2,423	(2,227)
XIV.	GAIN / (LOSS) ON NET MONETARY POSITION	-	-
XV.	PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+...+XIV)		
		711,557	539,632
XVI.	TAX CHARGE FOR CONTINUED OPERATIONS (±)		
16.1	Current income tax charge	(132,481)	(113,724)
16.2	Deferred tax charge / benefit	(124,964)	(159,411)
		(7,517)	45,687
XVII.	NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)	579,076	425,908
XVIII.	INCOME ON DISCONTINUED OPERATIONS		
18.1	Income on assets held for sale	-	-
	Income on sale of associates, subsidiaries and jointly controlled entities (joint vent.)	-	-
18.2		-	-
18.3	Income on other discontinued operations	-	-
XIX.	LOSS FROM DISCONTINUED OPERATIONS (-)	-	-
19.1	Loss from assets held for sale	-	-
	Loss on sale of associates, subsidiaries and jointly controlled entities (joint vent.)	-	-
19.2		-	-
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)		
23.1	Group's income/loss	579,076	425,908
23.2	Minority interest income/loss (-)	571,341	426,018
	Earnings per share income/loss (full TL)	7,735	(110)
		-	-

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
STATEMENTS OF CONSOLIDATED PROFIT AND LOSS ACCOUNTED FOR UNDER
EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNTED FOR UNDER
EQUITY (STATEMENT OF OTHER COMPREHENSIVE INCOME AND LOSS)

	Audited Current Period 01.01-31.12.2016	Audited Prior Period 01.01-31.12.2015
I. Additions to marketable securities revaluation differences from available for sale financial assets	(50,843)	(19,594)
II. Tangible assets revaluation differences	-	-
III. Intangible assets revaluation differences	-	-
IV. Currency translation differences for foreign currency transactions	57,726	50,413
V. Profit/loss from derivative financial instruments for cash flow hedge purposes (effective portion of fair value differences)	7,209	(16,230)
VI. Profit/loss from derivative financial instruments for hedge of net investment in foreign operations (effective portion of fair value differences)	(54,962)	(24,561)
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	1,454	3,151
IX. Deferred tax on valuation differences	18,478	11,447
X. Total net profit/loss accounted under equity (I+II+...+IX)	(20,938)	4,626
XI. Profit/loss	579,076	425,908
XI.1 Change in fair value of marketable securities (transfer to profit/loss)	(498)	(3,966)
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	579,574	429,874
XII. Total profit/loss accounted for the period (X±XI)	558,138	430,534

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

STATEMENT OF CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Audited	Note	Paid-in capital	Effect of inflation accounting on paid-in capital and other reserves	Share Premium	Share certificate cancellation profits	Legal reserves	Statutory reserves	Extraordinary reserve	Other reserve	Current period net 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 disc.op. valuation fund	Total excluding minority interest	Minority interest	Total equity	
Prior Period – (01.01-31.12.2015)																				
I.	Balances at beginning of the period	2,287,005	-	24,525	-	77,869	-	208,951	56,559	-	368,174	21,069	-	-	-	-	3,044,152	12,368	3,056,520	
II.	Correction made as per TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.1	Effect of corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2	Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III.	Adjusted balances at beginning of the period (I-II)	2,287,005	-	24,525	-	77,869	-	208,951	56,559	-	368,174	21,069	-	-	-	-	3,044,152	12,368	3,056,520	
Changes during the period																				
IV.	Increase/decrease related to merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
V.	Marketable securities revaluation differences	-	-	-	-	-	-	-	-	-	-	(15,675)	-	-	-	-	(15,675)	-	(15,675)	
VI.	Hedging funds (effective portion)	-	-	-	-	-	-	-	19,649	-	-	-	-	-	(32,633)	-	(12,984)	-	(12,984)	
6.1	Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,984)	-	(12,984)	-	(12,984)	
6.2	Hedge of net investment in foreign operations	-	-	-	-	-	-	-	19,649	-	-	-	-	-	(19,649)	-	-	-	-	
VII.	Tangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII.	Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX.	Bonus shares obtained from associates, subsidiaries and jointly controlled operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Foreign exchange differences	-	-	-	-	-	-	-	30,764	-	-	-	-	-	-	-	30,764	-	30,764	
XI.	Changes related to the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII.	Changes related to the reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII.	The effect of change in associate's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIV.	Capital increase	240,000	-	-	-	-	-	-	(127)	-	(239,873)	-	-	-	-	-	-	-	-	
14.1	Cash	(II-k)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
14.2	Internal sources	240,000	-	-	-	-	-	-	(127)	-	(239,873)	-	-	-	-	-	-	-	-	
XV.	Share issue premium	(II-k)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVII.	Inflation adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVIII.	Other(*)	317	-	(317)	-	-	-	-	2,521	-	-	-	-	-	-	-	2,521	-	2,521	
XIX.	Net income/(loss) for the period	-	-	-	-	-	-	-	-	426,018	-	-	-	-	-	-	426,018	(110)	425,908	
XX.	Profit distribution(**)	-	-	-	-	22,418	-	32,602	36,634	-	(130,577)	-	-	-	-	-	(38,923)	-	(38,923)	
20.1	Dividends distributed	-	-	-	-	-	-	36	-	-	(38,959)	-	-	-	-	-	(38,923)	-	(38,923)	
20.2	Transfers to reserves	-	-	-	-	22,418	-	32,566	36,634	-	(91,618)	-	-	-	-	-	-	-	-	
20.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balances at end of the period																				
(III+IV+V+.....+XVIII+XIX+XX)		(II-k)	2,527,322	-	24,208	-	100,287	-	241,553	146,000	426,018	(2,276)	5,394	-	-	(32,633)	-	3,435,873	12,258	3,448,131

(* In the Ordinary General Assembly Meeting dated 31 March 2015, the Bank decided on reserving primary reserves amount to TL 18,522; other reserves amount to TL 36,507 funded via retained profit from sales of real estates, cash dividend payments amount to TL 36,000; dividend to management amount to TL 2,959; funding capital increase from internal sources via remaining net income amount to TL 240,000 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 3,896 and remaining amount to 32,566 to extraordinary legal reserves. In addition to this, the Bank has transferred dividend amounting to TL 36 that held by the Bank itself to the extraordinary reserves depending on the General Assembly Meeting decision.

(**) Amounting to TL 5,161 represents actuarial loss and tax effect of retirement payments. TL 2,521 is a result of the Bank's shareholder is not using the right from the committed capital in the capital increase of bank.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ

STATEMENT OF CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

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 / (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 disc.op. valuation fund	Total excluding minority interest	Minority interest	Total equity	
Current Period – (01.01-31.12.2016)																				
I.	Balances at beginning of the period	2,527,322	-	24,208	-	100,287	-	241,553	146,000	-	423,742	5,394	-	-	(32,633)	-	3,435,873	12,258	3,448,131	
II.	Correction made as per TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.1	Effect of corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2	Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III.	Adjusted balances at beginning of the period (I-II)	2,527,322	-	24,208	-	100,287	-	241,553	146,000	-	423,742	5,394	-	-	(32,633)	-	3,435,873	12,258	3,448,131	
Changes during the period																				
IV.	Increase/decrease related to merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
V.	Marketable securities revaluation differences	-	-	-	-	-	-	-	-	-	-	(40,674)	-	-	-	-	(40,674)	-	(40,674)	
VI.	Hedging funds (effective portion)	-	-	-	-	-	-	-	43,970	-	-	-	-	-	(38,203)	-	5,767	-	5,767	
6.1	Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,767	-	5,767	
6.2	Hedge of net investment in foreign operations	-	-	-	-	-	-	-	43,970	-	-	-	-	-	(43,970)	-	-	-	-	
VII.	Tangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII.	Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX.	Bonus shares obtained from associates, subsidiaries and jointly controlled operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Foreign exchange differences	-	-	-	-	-	-	-	13,756	-	-	-	-	-	-	-	13,756	-	13,756	
XI.	Changes related to the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII.	Changes related to the reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII.	The effect of change in associate's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIV.	Capital increase	260,000	-	-	-	-	-	-	(476)	-	(259,524)	-	-	-	-	-	-	-	-	
14.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
14.2	Internal sources	260,000	-	-	-	-	-	-	(476)	-	(259,524)	-	-	-	-	-	-	-	-	
XV.	Share issue premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVII.	Inflation adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVIII.	Other(*)	-	-	-	-	-	-	-	1,163	-	-	-	-	-	-	-	-	-	1,163	
XIX.	Net income/(loss) for the period	-	-	-	-	-	-	-	-	571,341	-	-	-	-	-	-	1,163	7,735	579,076	
XX.	Profit distribution(**)	-	-	-	-	22,574	-	110,396	48,788	-	(185,157)	-	-	-	-	-	(3,399)	-	(3,399)	
20.1	Dividends distributed	-	-	-	-	-	-	-	-	-	(3,399)	-	-	-	-	-	(3,399)	-	(3,399)	
20.2	Transfers to reserves	-	-	-	-	22,574	-	110,396	48,788	-	(181,758)	-	-	-	-	-	-	-	-	
20.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balances at end of the period																				
(III+IV+V+.....+XVIII+XIX+XX)		(II-k)	2,787,322	-	24,208	-	122,861	-	351,949	253,201	571,341	(20,939)	(35,280)	-	-	(70,836)	-	3,983,827	19,993	4,003,820

(*) In the Ordinary General Assembly Meeting dated 4 April 2016, the Bank decided on reserving primary reserves amount to TL 22,234; other reserves amount to TL 48,788 funded via retained profit from sales of real estates, cash dividend; dividend to management amount to TL 3,399; funding capital increase from internal sources via remaining net income amount to TL 259,524 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 340 and remaining amount to TL 110,396 to extraordinary legal reserves, other reserve amount to TL 476 which obtained from research and development activities according to Law No. 5746 under Articles3, funding capital increase from internal sources.

(**) Amounting to TL 1,163 represents actuarial loss and tax effect of retirement payments.

The accompanying notes are an integral part of these consolidated financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
CONSOLIDATED CASH FLOWS STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VI. CONSOLIDATED CASH FLOWS STATEMENT

		Audited	Audited
		Current period	Prior Period
		01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
	Note		
A.	CASH FLOWS FROM BANKING OPERATIONS		
1.1	Operating profit before changes in operating assets and liabilities	819,666	1,080,406
1.1.1	Profit share income received	3,033,597	2,478,144
1.1.2	Profit share expense paid	(1,392,727)	(1,083,680)
1.1.3	Dividend received	509	-
1.1.4	Fees and commissions received	316,661	261,260
1.1.5	Other income	302,609	529,303
1.1.6	Collections from previously written off loans	21,564	19,525
1.1.7	Payments to personnel and service suppliers	(871,972)	(759,239)
1.1.8	Taxes paid	(167,363)	(191,143)
1.1.9	Others	(423,212)	(173,764)
1.2	Changes in operating assets and liabilities	(588,799)	1,272,173
1.2.1	Net (increase) decrease held for trading financial assets	(7,663)	(39,207)
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	(1,742,742)	791,331
1.2.4	Net (increase) decrease in loans	(3,385,011)	(6,020,635)
1.2.5	Net (increase) decrease in other assets	(302,200)	(26,968)
1.2.6	Net increase (decrease) in bank deposits	112,015	(28,432)
1.2.7	Net increase (decrease) in other deposits	3,763,676	6,029,642
1.2.8	Net increase (decrease) in funds borrowed	365,827	357,842
1.2.9	Net increase (decrease) in due payables	-	-
1.2.10	Net increase (decrease) in other liabilities	607,299	208,600
I.	Net cash provided from / (used in) banking operations	230,867	2,352,579
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
II.	Net cash provided from / (used in) investing activities	(1,511,284)	(330,316)
2.1	Cash paid for purchase jointly controlled operations, associates and subsidiaries	(750)	(250)
2.2	Cash obtained from sale of jointly controlled operations, associates and subsidiaries	-	-
2.3	Fixed assets purchases	(46,878)	(103,336)
2.4	Fixed assets sales	10,507	12,101
2.5	Cash paid for purchase of financial assets available for sale	(2,587,958)	(1,177,093)
2.6	Cash obtained from sale of financial assets available for sale	1,166,806	1,017,089
2.7	Cash paid for purchase of investment securities	-	-
2.8	Cash obtained from sale of investment securities	-	-
2.9	Other	(53,011)	(78,827)
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
III.	Net cash provided from / (used in) financing activities	1,261,693	871,317
3.1	Cash obtained from funds borrowed and securities issued	2,079,050	2,066,531
3.2	Cash used for repayment of funds borrowed and securities issued	(813,958)	(1,156,091)
3.3	Capital increase	-	-
3.4	Dividends paid	(3,399)	(38,923)
3.5	Payments for finance leases	-	(200)
3.6	Other	-	-
IV.	Effect of change in foreign exchange rate on cash and cash equivalents	(V-d)	140,046
V.	Net increase (decrease) in cash and cash equivalents (I + II + III + IV)	121,322	2,772,297
VI.	Cash and cash equivalents at the beginning of the period	(V-a)	4,777,114
VII.	Cash and cash equivalents at the end of the period	(V-a)	4,898,436

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 PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VII. CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

The Parent Bank	Current period 01.01.2016- 31.12.2016 (*)	Prior period 01.01.2015- 31.12.2015
I. Distribution of current year profit (****)		
1.1. Current period profit	663,212	553,476
1.2. Taxes and legal duties payable (-)	121,246	108,795
1.2.1. Corporate tax (income tax)	124,960	159,394
1.2.2. Withholding tax	-	-
1.2.3. Other taxes and duties (**)	(3,714)	(50,599)
A. Net profit for the period (1.1-1.2) (Not V-I-17-c)	541,966	444,681
1.3. Accumulated losses (-)	-	-
1.4. First legal reserves (-)	-	22,234
1.5. Other statutory reserves (-)	-	-
B. Net profit available for distribution [(A-(1.3+1.4+1.5))]	-	422,447
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 (-)	-	3,399
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 (-)	-	340
1.11. Status reserves (-)	-	-
1.12. Extra ordinary reserves (***)	-	110,396
1.13. Other reserves	-	48,788
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	-	0.181
3.2. To owners of ordinary shares (%)	-	18.053
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 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.

(***) TL 259,524 from retained earnings and TL 476 from other reserves are transferred to paid-in capital within capital increase scope.

The accompanying notes are an integral part of these financial statements.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION THREE
ACCOUNTING PRINCIPLES

I. Explanations on basis of presentation

a. 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.

b. Classifications

Expertise expense amounting to TL 18,642 which was presented under Other Operating Expenses in the consolidated income statement in the prior period, is classified under “Fees and Commissions Given” in the current period for consistency of presentation.

c. 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.

d. 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.

II. 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 net investment in consolidated foreign subsidiaries is translated

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on strategy of using financial instruments and foreign currency transactions(continued)

into Turkish Lira using the exchange rate prevailing at the balance sheet date for their assets and liabilities and average exchange rate for their income statement items. The currency translation gain arising from the consolidated subsidiaries' foreign currency differences has been recorded in "Other Profit Reserves" under shareholders' equity.

The Group's portion of risk regarding loans originating from participation accounts followed in receivables to be written off, doubtful commission, fees and other receivables, uncollectible loans and other receivables, along with foreign currency (FC) loans and receivables originating from the Bank's equity and private current accounts are converted to Turkish Lira with the rates prevailing at the date of the transfer of such receivables to non-performing loan portfolio. The participation accounts' portion of the risk of the foreign currency loans and FC pegged loans, originating from participation accounts, is evaluated with the current foreign currency rates and the differences are recorded foreign currency gains/losses account in the income statement.

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.

III. Information about the Parent Bank and its Consolidated Subsidiaries

The consolidated financial statements have been prepared in accordance with the "Turkish Accounting Standard for the Consolidated and Separate Financial Statements ("TAS 27").

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	30 December 2015	31 December 2014	Consolidation Method
Kuveyt Türk Katılım Bankası Dubai LTD.	Dubai/United Arab Emirates	Banking	% 100.00	% 100.00	Full consolidation
KT Bank AG	Frankfurt/Germany	Banking	% 100.00	% 100.00	Full consolidation
KT Portföy Yönetimi A.Ş.	Istanbul/Turkey	Financial Institution	% 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
Katılım Emeklilik ve Hayat A.Ş.	Istanbul/Turkey	Financial Institution	% 50.00	% 50.00	Accounted for under equity method
KT Sukuk Company Limited	George Town/ Cayman Islands	Financial Institution	-	-	Full consolidation

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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. Information about the consolidated subsidiaries (continued)

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.

IV. Explanations on forward transactions and option contracts and derivative instruments

The Group 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 "TAS 39". 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 "TAS 39", and are reflected in the "Derivative Financial Assets/Liabilities Held for Trading" 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 "TAS 39". 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.

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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations on forward transactions and option contracts and derivative instruments(continued)

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.

V. 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.

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.

VI. 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.

VII. Explanations on financial assets

The Group classifies and accounts for its financial assets as “Fair value through profit/loss”, “Available for sale”, and Loans and receivables” or “Held to maturity. Sale and purchase transactions of the financial assets mentioned above are recognized at the ‘Settlement dates’. The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of the investment.

a. Financial assets at fair value through profit or loss:

This category has two sub categories: “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 Group has no financial assets at fair value through profit or loss.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VII. Explanations on financial assets(continued)

b. 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. In case of sales, the realized gain/losses in the shareholders’ equity are recognized directly in the income statement.

c. 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.

d. 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 Group does not have any held to maturity financial assets as of the balance sheet date.

VIII. 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.

i) 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 Parent 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VIII. Explanations on impairment of financial assets(continued)

ii) 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.

iii) 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.

IX. 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.

X. 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 2016, the Group has repurchaseng agreements amounting to TL 1,219,873 (31 December 2015 - TL 711,542).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

XI. 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.”

The principles for valuation and accounting for disposal of assets acquired by banks in return for their nonperforming loans are determined by the official communication of “Principles and Procedures on Bank’s Disposal of Precious Metals and Assets Held for Sale” No. 26333 published on 1 November 2006 and No. 26592 published on 24 April 2007 in the Official Gazette.

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.

Although the Group has assets acquired due to receivables and debtors’ obligations to the Group, such assets are classified as fixed assets rather than assets held for sale and are amortized due to inability to dispose them or to produce a solid plan for disposal within a year within the provisions of banking legislation.

On the other hand properties acquired by the Bank due to receivables and debtors’ obligations to the Bank are reflected as assets held for sale in the financial statements provided that there is a contracted term sale agreement.

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.

XII. 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

XIII. 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.

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.

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.

XIV. 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 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

XV. 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.

XVI. Explanations on liabilities relating to employee benefits

a) 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.

b) Defined contribution plans:

The Parent 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.

c) 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

XVII. Explanations on taxation

Current tax

The corporate tax rate in Turkey is 20%. 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 code, each quarter advance tax amount is calculated using a rate of 20% over tax base and paid, then the paid advance taxes are deducted from the corporate tax liability that is calculated for the 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.

Each quarter advance tax amount is calculated using a rate of 20% 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.

Corporate tax rate is applied as 100% for real estates proceeds under the following circumstances and they are not required to be held under assets for two years:

- through the sale of real estates to asset leasing companies by companies for issuing leasing certificate;
- through the sale of real estates to financial leasing companies for leaseback and buy back at the end of lease agreement under the requirements set out in Financial Leasing, Factoring and Financing Companies Law No: 6361 issued on 21 November 2012; and
- through the transfer of real assets by asset leasing and financial leasing companies.

However, for real estates sales to third parties by asset leasing or financial leasing companies, except for circumstances where there is a failure in meeting contractual liabilities or liabilities to the company or lessees, the tax rate is applied by the seller considering the carrying amount of real estates in the company or in lessee prior to the transfer and total depreciation provided in the respective company.

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 2016, the tax rates applied in foreign countries where the Group operates is as follow:

Country	Tax Rate
Germany	15%
The United Arab Emirates	0%

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

XVII. Explanations on taxation(continued)

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 general provisions to the extent that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis. If transactions and events are recorded directly in the shareholders’ equity, the related tax effects are recognized directly in the shareholders’ equity.

XVIII. 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 Group does not apply hedging techniques on related borrowings.

There are no debt securities issued by the Group.

The Group has not issued convertible bonds.

Borrowing through the rent certificates (Sukuk)

In order to collect funds from various investors, the Parent Bank issued a 5 year term rent certificate amounting to USD 350 million on 31 October 2011 with a profit share rate of 5.875%. The Parent Bank has performed this issue through KT Sukuk Varlık Kiralama A.Ş. (Note V Part I-i), which is a subsidiary of the Parent Bank that is established specifically for this transaction (the issuance of the rent certificates). Funds collected by KT Sukuk Varlık Kiralama A.Ş. from rent certificate investors, amounting to USD 350 million, is transferred to the Bank in exchange of some of the real estate assets, loan receivables and leasing receivables of the Parent Bank. Within the scope of the aforementioned transaction, the Parent Bank sold its real estate properties with a net book value of TL 61,195 to KT Sukuk Varlık Kiralama A.Ş. for a consideration equal to their market price of TL 248,734 (USD 136,870) and leased back these real estate assets for 5 years with a repurchase option at the end of the fifth year.

In accordance with the letter received from BRSA, numbered B.02.1.BDK.0.06.00.00-045.01(3/8)-5397 and dated 13 March 2012 this transaction is accounted for as “sale and lease back” transaction in accordance with “TAS 17”. As a consequence of this accounting treatment, the net book value of the real estate property transferred and leased back increased from TL 61,195 to TL 248,734. The difference of TL 187,539 between the net book value of TL 61,195 before the aforementioned transaction and the net book value of TL 248,734 after the aforementioned transaction will be recognized as income in 5 years using the effective interest method and accounted for as deferred income under other liabilities. Current period TL 51,007 of the aforementioned deferred income is recognized as income in the income statement (31 December 2015 – TL 48,312). The difference accounted as tangible assets mentioned above, will be recognized as expense by accounting under “other expenses” in the income statement during the period of lease.

Rent certificate transaction explained above as issued on 29 October 2011 amounting to USD 350 million is matured as of 31 October 2016.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

XIX. Explanations on share certificates issued

There is no significant amount of transaction costs on Bank about share certificates.

XX. 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.

XXI. Explanations on government grants

There are no government grants received by the Group.

XXII. 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 X.

XXIII. Explanations on other matters

There are no other matters to be disclosed by the Group.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION FOUR

INFORMATION ON FINANCIAL STRUCTURE

I. Explanations on consolidated capital adequacy standard ratio

Capital adequacy ratio is calculated within the scope of the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the “Regulation”)” published in the Official Gazette No: 29511 dated 23 October 2015, “Communiqué on Credit Risk Mitigation Techniques” published in the Official Gazette No: 29111 dated 6 September 2014, “Communiqué on Calculation of Risk Weighted Amounts for Securitizations” published in the Official Gazette No: 29511 dated 23 October 2015 and the “Regulation on Equities of Banks” published in the Official Gazette No: 28756 dated 5 September 2013.

For the calculation of the capital adequacy ratio, the accounting records prepared in compliance with the current legislation are used. Such accounting information is included in the calculation of credit and market risks subsequent to their designation as “trading book” and “banking book” according to the regulation. Trading books include in and off the balance sheet accounts and positions over which derivative financial instruments and speculative-purpose derivative instruments are followed up, the financial instruments and commodities held by the Bank for the purpose of performing purchase and sales transactions in order to benefit from the price differences expected or realized as short term and/or between the purchase and sales prices or the other price and rate of exchange changes and in order to protect from the risks or reduce such risks arising of the positions relevant to the mentioned financial instruments and commodities. The accounts other than the trading books are defined as banking books.

Banking books include Due from Central Bank, Due from Banks, Loans and Receivables, Leasing Receivables, Transactions and Other Assets items in the assets; and Funds Collected, Securities Issued, Borrowings, Subordinated Loans, Other Liabilities items in the liabilities. The derivative financial instruments and available-for-sale financial assets are followed up over the Trading Books.

Risk measurement methods used in the determination of the standard rate capital adequacy ratio by way of determination of the risk-weighted assets and non-cash loans according to the risk weight rates in the relevant regulation and inclusion within the capital adequacy standard rate calculations after calculation of the market risk and the operational risk in compliance with the relevant regulations. Credit risk is calculated by subjecting the risk-weighted assets and non-cash loans to the risk weight rates in the relevant legislation and application of the risk reduction techniques, and the standard method is used for the market risk and the basic indicator method is used for the operational risk.

Based on the Communiqué concerning “Measurement and Assessment of Capital Adequacy of Banks”, the capital adequacy ratio of the Bank is 18.19% (31 December 2015: 14.23%).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on consolidated capital adequacy standard ratio (continued)

a. Components of consolidated shareholders' equity:

	<i>Amount</i>	<i>Amount as per the regulation before 1/1/2014 ^(*)</i>
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2,790,000	
Share Premium	24,208	
Reserves	741,764	
Other Comprehensive Income according to TAS	-	
Profit	550,402	
Current Period Profit	571,341	
Prior Period Profit	(20,939)	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Minority Interests	19,993	
Common Equity Tier I Capital Before Deductions	4,126,367	
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 (-)	119,869	
Leasehold Improvements on Operational Leases (-)	47,732	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	84,280	140,466
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 BRSB (-)	-	
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	254,559	
Total Common Equity Tier I Capital	3,871,808	

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on consolidated capital adequacy standard ratio (Continued)

a. Components of consolidated shareholders' equity (Continued):

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 (-)	56,186	140,466
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	56,186	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	3,815,622	
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1,794,270	
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)	220,123	
Total Deductions from Tier II Capital	2,014,393	
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	2,014,393	
Total Equity (Total Tier I and Tier II Capital)	5,830,015	

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on consolidated capital adequacy standard ratio (Continued)

a. Components of consolidated shareholders' equity (Continued):

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 (-)		5,208
Other items to be Defined by the BRSA (-)		95,439
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)		5,729,368
Total Risk Weighted Assets		31,499,103
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)		12.29
Tier I Capital Ratio (%)		12.11
Capital Adequacy Ratio (%)		18.19
BUFFERS		
Bank-specific total CET1 Capital Ratio		0.63
Capital Conservation Buffer Ratio (%)		0.63
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		7.79
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)		220,123
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets		220,123
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		-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on consolidated capital adequacy standard ratio (Continued)

a. Components of consolidated shareholders' equity (Continued):

	Prior Period
TIER 1 CAPITAL	3,298,662
Paid-in Capital to be Entitled for Compensation after All Creditors	2,527,322
Share Premium	24,208
Share Cancellation Profits	-
Reserves	414,536
Other Comprehensive Income According to TAS	97,445
Profit	423,742
Current Period Profit	426,018
Prior Period Profit	(2,276)
General Reserves for Possible Losses	-
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	-
Tier 1 Capital Before Deductions	3,487,253
Deductions from Tier 1 Capital	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	51,380
Leasehold Improvements on Operational Leases (-)	46,615
Goodwill and Other Intangible Assets and Related Deferred Taxes (-)	45,347
Net Deferred Tax Asset/Liability (-)	45,249
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Direct and Indirect Investments of the Bank on its own 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 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 less 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 Tier I Capital	188,591
Total Tier 1 Capital	3,298,662
ADDITIONAL CORE CAPITAL	
Preferred Stock not included in Tier 1 Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	-
Additional Core Capital before Deductions	-
Deductions from Additional Core Capital	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
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 (-)	-
Deductions from Additional Core Capital in cases where there are no adequate Tier II Capital (-)	-
Total Deductions from Additional Core Capital	-
Total Additional Core Capital	-
Deductions from Core Capital	135,894
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 (-)	71,604
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 (-)	64,290
Total Core Capital	3,162,768

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on consolidated capital adequacy standard ratio (Continued)

a. Components of consolidated shareholders' equity (Continued):

	Prior Period
TIER II CAPITAL	659,168
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	417,402
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-
General Provisions	241,766
Tier II Capital Before Deductions	659,168
Deductions from Tier II Capital	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
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 Core 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	659,168
CAPITAL	3,821,936
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 (-)	4,334
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	-
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by the BRSA (-)	28,902
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 Core 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 Core 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 (-)	-
EQUITY	3,788,700
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 Tier I Capital	-
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on capital adequacy standard ratio (Continued)

b. Reconciliation of capital items to balance sheet

<i>Current Period</i>	<i>Carrying value</i>	<i>Amount of correction</i>	<i>Value of the capital report</i>	<i>Explanation of differences</i>
Paid-in Capital	2,787,322	2,678	2,790,000	Adjustment related to its own draw backed share of the Bank
Capital Reserves	(95,661)	-	(95,661)	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Other Comprehensive Income According to TAS	(119,869)	-	(119,869)	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Securities Value Increase Fund	(35,280)	-	(35,280)	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Revaluation Surplus on Tangible Assets	-	-	-	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Revaluation Surplus on Intangible Assets	-	-	-	
Revaluation Surplus on Investment Property	-	-	-	
Hedging Reserves (Effective Portion)	(70,836)	-	(70,836)	Items not included in the calculation as per Regulation's Article 9-1-f
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations	-	-	-	
Other Capital Reserves	(13,753)	-	(13,756)	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*) and inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Bonus Shares of Associates, Affiliates and Joint-Ventures	-	-	-	
Share Premium	24,208	-	24,208	
Profit Reserves	741,764	-	741,764	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Profit or Loss	550,402	-	550,402	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Prior Periods Profit/Loss	(20,939)	-	(20,939)	
Current Period Net Profit/Loss	571,341	-	571,341	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Minority Shareholders	19,993	-	19,993	Adjustment effect according to Regulation on Equities of the Banks of the 4 th paragraph of Article 10 (*)
Deductions from Common Equity Tier I Capital (-)	254,559	-	254,559	Deductions from Tier I Capital as per the Regulation
Common Equity Tier I Capital	3,869,130		3,871,808	

<i>Current Period</i>	<i>Carrying value</i>	<i>Amount of correction</i>	<i>Value of the capital report</i>	<i>Explanation of differences</i>
Subordinated Debts			-	
Deductions from Tier I Capital (-)			-	
Tier I Capital			3,815,622	
Subordinated Debts			1,794,270	
General Provisions			220,123	General Loan Provision added to Tier II Capital as per the Regulation's Article 8
Deductions from Tier II Capital (-)			-	Deductions from Tier II Capital as per the Regulation
Tier II Capital			2,014,393	
Deductions from Total Capital (-)			100,647	Deductions from Capital as per the Regulation
Total			5,729,368	

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations on consolidated capital adequacy standard ratio (Continued)

c. 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 to be a developing process and the development areas for the future period are determined and plans are prepared.

II. 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 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.

The loans which do not meet the delay term required for classification as Third Group loans defined in the Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

be provided for these Loans, are qualified as "past due" loans; all the loans and receivables classified in the third, fourth and fifth groups indicated in the same Regulation are accepted to be "impaired loans".

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.

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 22% and 28% of the total cash loan portfolio, respectively.

The Bank's top 100 and 200 non-cash loan customers represent 44% and 52% of the total non-cash loan portfolio, respectively.

The Bank's top 100 and 200 cash and non-cash loan customers represent 23% and 29% of the total cash and non-cash loan portfolio, respectively.

The general provision for credit risk amounts to TL 318,825 (31 December 2015: TL 334,118).

Exposure Categories (Current Period)	Period end Risk Amount (*)	Average Risk Amount (**)
Conditional and unconditional exposures to central governments or central banks	10,172,133	8,710,127
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	7,604,636	5,315,064
Conditional and unconditional exposures to corporates	9,137,686	11,421,828
Conditional and unconditional retail exposures	5,800,248	4,177,551
Conditional and unconditional exposures secured by real estate property	12,056,561	12,512,656
Past due items	105,115	67,137
Items in regulatory high-risk categories	56,985	69,349
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	83,760	50,501
Equity share investments	-	-
Other items	3,931,025	3,683,194
Total	48,948,149	46,007,407

(*) 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

Exposure Categories (Prior Period)	Period end Risk Amount (*)	Average Risk Amount (**)
Conditional and unconditional exposures to central governments or central banks	5,583,719	5,227,570
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	5,365,412	3,767,649
Conditional and unconditional exposures to corporates	12,012,680	10,825,888
Conditional and unconditional retail exposures	3,747,568	3,701,252
Conditional and unconditional exposures secured by real estate property	10,667,092	10,611,895
Past due items	71,931	68,270
Items in regulatory high-risk categories	233,511	230,667
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	-	-
Other items	3,348,283	3,437,139
Total	41,030,196	37,870,330

(*) 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

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

a. Profile of significant exposures in major regions:

Current Period (*)	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
Domestic	10,172,133	4,546,405	9,004,866	5,789,632	11,889,941	105,040	56,985	69,613	-	41,634,615
European Union (EU)										
Countries	-	1,209,259	1,895	532	19,473	-	-	-	-	1,231,159
OECD Countries(**)	-	433,750	1,174	16	5,143	-	-	-	-	440,083
Off-Shore Banking Regions	-	94,014	21,209	1,691	75,343	-	-	361	-	192,618
USA, Canada	-	395,943	174	21	1,628	-	-	-	-	397,766
Other Countries	-	925,265	108,368	8,356	65,033	75	-	13,786	-	1,120,883
Associates, Subsidiaries and										
Joint –Ventures	-	-	-	-	-	-	-	-	349,513	349,513
Unallocated										
Assets/Liabilities(***)	-	-	-	-	-	-	-	-	3,581,512	3,581,512
Total	10,172,133	7,604,636	9,137,686	5,800,248	12,056,561	105,115	56,985	83,760	3,931,025	48,498,149

(*) 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

Prior Period (*)	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	Other	Total
Domestic	5,583,719	1,885,746	11,796,218	3,731,554	10,600,110	71,931	233,511	-	33,902,789
European Union (EU)									
OECD Countries(**)	-	1,420,697	22,400	3,294	11,439	-	-	-	1,457,830
Off-Shore Banking Regions	-	540,571	-	459	4,650	-	-	-	545,680
USA, Canada	-	73,398	74,365	2,467	2,898	-	-	-	153,128
Other Countries	-	646,719	-	504	2,726	-	-	-	649,949
Associates, Subsidiaries and									
Joint –Ventures	-	798,281	119,697	9,290	45,269	-	-	-	972,537
Unallocated	-	-	-	-	-	-	-	22,930	22,930
Assets/Liabilities(***)	-	-	-	-	-	-	-	3,325,353	3,325,353
Total	5,583,719	5,365,412	12,012,680	3,747,568	10,667,092	71,931	233,511	3,348,283	41,030,196

(*) 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

b. Risk profile by sectors or counterparties

Current Period(*)	Conditional and unconditional receivables from central governments or banks	Conditional and unconditional receivables from regional 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 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	
Agriculture	-	-	-	-	-	-	73,556	91,495	128,003	1,059	5,498	-	-	-	-	-	191,842	107,769	299,611	
Farming and Stockbreeding	-	-	-	-	-	-	62,493	52,283	50,874	425	301	-	-	-	-	-	100,602	65,774	166,376	
Forestry	-	-	-	-	-	-	11,039	38,621	66,207	592	2,366	-	-	-	-	-	78,080	40,745	118,825	
Fishery	-	-	-	-	-	-	24	591	10,922	42	2,831	-	-	-	-	-	13,160	1,250	14,410	
Manufacturing	-	-	-	-	-	-	3,731,555	1,373,920	2,165,416	24,278	9,077	-	-	-	-	-	2,445,853	4,858,393	7,304,246	
Mining and Quarrying	-	-	-	-	-	-	476,706	269,497	334,786	2,472	1,582	-	-	-	-	-	487,378	597,665	1,085,043	
Production	-	-	-	-	-	-	1,881,530	1,020,827	1,720,147	21,366	6,802	-	-	-	-	-	1,779,467	2,871,205	4,650,672	
Electricity, Gas and Water	-	-	-	-	-	-	1,373,319	83,596	110,483	440	693	-	-	-	-	-	179,008	1,389,523	1,568,531	
Construction	-	-	-	-	-	-	2,079,689	979,590	2,442,200	20,356	15,440	-	-	-	-	-	3,198,214	2,339,060	5,537,274	
Services	10,172,133	-	-	-	-	-	7,604,636	2,439,272	1,978,821	3,328,469	36,790	25,739	-	-	-	83,760	7,632,705	18,036,914	25,669,619	
Wholesale and Retail Trade	-	-	-	-	-	-	1,161,617	1,334,400	2,127,021	23,811	20,293	-	-	-	-	-	2,489,646	2,177,496	4,667,142	
Accommodation and Dining	-	-	-	-	-	-	51,603	52,379	217,081	2,899	2,302	-	-	-	-	-	170,604	155,660	326,264	
Transportation and Telecom.	-	-	-	-	-	-	698,823	286,889	319,276	5,006	803	-	-	-	-	-	479,165	831,632	1,310,797	
Financial Institutions	10,172,133	-	-	-	-	-	7,604,636	24,139	4,446	24,213	-	-	-	-	83,760	-	3,782,645	14,130,682	17,913,327	
Real Estate and Rental																				
Services	-	-	-	-	-	-	289,348	46,623	273,481	1,996	-	-	-	-	-	-	135,218	476,230	611,448	
Professional Services	-	-	-	-	-	-	32	442	258	-	-	-	-	-	-	-	649	83	732	
Educational Services	-	-	-	-	-	-	45,431	19,951	128,116	32	32	-	-	-	-	-	129,871	63,691	193,562	
Health and Social Services	-	-	-	-	-	-	168,279	233,691	239,023	3,046	2,309	-	-	-	-	-	444,907	201,440	646,347	
Others	-	-	-	-	-	-	813,615	1,376,422	3,992,473	22,632	1,231	-	-	-	-	3,931,025	7,140,292	2,997,105	10,137,397	
Total	10,172,133	-	-	-	-	-	7,604,636	9,137,686	5,800,248	12,056,561	105,115	56,985	-	-	-	83,760	3,931,025	20,608,906	28,339,241	48,948,149

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)
b. Risk profile by sectors or counterparties

Prior Period(*)	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral development bank	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
Agriculture	-	-	-	-	-	-	163,156	59,929	83,186	1,105	752	-	-	-	-	-	241,067	67,061	308,128
Farming and Stockbreeding	-	-	-	-	-	-	95,367	28,890	28,078	604	8	-	-	-	-	-	105,159	47,788	152,947
Forestry	-	-	-	-	-	-	57,913	29,227	48,637	501	631	-	-	-	-	-	117,824	19,085	136,909
Fishery	-	-	-	-	-	-	9,876	1,812	6,471	-	113	-	-	-	-	-	18,084	188	18,272
Manufacturing	-	-	-	-	-	-	4,565,303	739,792	1,628,640	11,550	9,808	-	-	-	-	-	6,244,404	710,689	6,955,093
Mining and Quarrying	-	-	-	-	-	-	685,113	134,966	227,699	2,043	1,978	-	-	-	-	-	898,944	152,855	1,051,799
Production	-	-	-	-	-	-	2,694,470	564,640	1,345,270	9,157	7,795	-	-	-	-	-	4,187,951	433,381	4,621,332
Electricity, Gas and Water	-	-	-	-	-	-	1,185,720	40,186	55,671	350	35	-	-	-	-	-	1,157,509	124,453	1,281,962
Construction	-	-	-	-	-	-	2,509,989	548,594	2,051,488	21,538	4,400	-	-	-	-	-	4,647,207	480,002	5,127,209
Services	5,583,719	-	-	-	-	-	5,365,412	3,989,798	1,267,931	2,713,481	28,147	16,190	-	-	-	-	7,821,919	11,142,759	18,964,678
Wholesale and Retail Trade	-	-	-	-	-	-	2,311,621	830,720	1,749,812	17,208	10,641	-	-	-	-	-	4,466,247	453,755	4,920,002
Accommodation and Dining	-	-	-	-	-	-	75,400	40,595	147,345	264	449	-	-	-	-	-	232,415	31,638	264,053
Transportation and Telecom.	-	-	-	-	-	-	825,255	213,161	251,186	6,288	3,604	-	-	-	-	-	1,197,235	102,259	1,299,494
Financial Institutions	5,583,719	-	-	-	-	-	5,365,412	54,490	2,256	-	-	-	-	-	-	-	632,503	10,401,607	11,034,110
Real Estate and Rental																			
Services	-	-	-	-	-	-	320,008	28,068	278,134	2,679	273	-	-	-	-	-	558,275	70,887	629,162
Professional Services	-	-	-	-	-	-	62	452	343	-	-	-	-	-	-	-	839	18	857
Educational Services	-	-	-	-	-	-	71,113	12,944	67,073	92	171	-	-	-	-	-	148,423	2,970	151,393
Health and Social Services	-	-	-	-	-	-	331,849	139,735	191,355	1,616	1,052	-	-	-	-	-	585,982	79,625	665,607
Others	-	-	-	-	-	-	784,434	1,131,322	4,190,297	9,591	211,161	-	-	-	-	-	3,348,283	7,206,117	2,468,971
Total	5,583,719	-	-	-	-	-	5,365,412	12,012,680	3,747,568	10,667,092	71,931	233,511	-	-	-	-	3,348,283	26,160,714	14,869,482

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

c. 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	1,181,398	-	-	-	2,843,165
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	360,094	749,327	478,971	151,718	1,166,445
Conditional and unconditional exposures to corporates	1,925,614	245,383	449,780	793,041	5,697,019
Conditional and unconditional retail exposures	566,460	194,535	444,758	934,129	3,499,088
Conditional and unconditional exposures secured by real estate property	330,512	131,511	295,867	1,042,870	10,255,801
Past due exposures					
Items in regulatory high-risk categories	26,038	2,830	4,630	6,552	16,935
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	4,073	6,282	19,101	6,027	48,277
Other items	-	-	-	-	-
Total	4,394,189	1,329,868	1,693,107	2,934,337	23,526,730

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

c. Analysis of maturity-bearing exposures according to remaining maturities:

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	-	-	-	-	-
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	1,656,109	10,676	7,051	58	62,003
Conditional and unconditional exposures to corporates	2,595,049	799,666	1,176,863	1,914,405	5,447,755
Conditional and unconditional retail exposures	309,999	276,831	459,285	680,940	1,749,110
Conditional and unconditional exposures secured by real estate property	290,258	375,670	656,172	1,334,167	8,010,825
Past due items	-	-	-	-	-
Items in regulatory high-risk categories	11,879	841	1,721	2,076	216,994
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	-	-	-	-	-
Other items	63,483	-	7,455	-	-
Total	4,926,777	1,463,684	2,308,547	3,931,646	15,486,687

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on Consolidated Credit Risk (continued)

d. 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 institution are used for Banks and Corporate Receivables and being limited to the receivables in which the counter party resides abroad. The receivables from the banks are examined under two different receivable classes based on the remaining term. If the remaining term is 3 months or less, these are classified as "Short Term Receivables from Banks and Brokerage Houses" and if more than 3 months, as "Receivables from Banks and Brokerage Houses". The banks and institutions residing in the country are evaluated without rating.

The ratings provided by the international rating institution are used while determining the class of risk weighted asset. The ratings of the credit rating institution are used for Banks and Corporate Receivables class, being limited to the receivables, in which the counter party resides abroad.

"Credit Quality Levels" corresponding to the ratings of the credit rating institution are presented in the following table.

Credit Quality Grade	Fitch Risk Rating	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 AA+ AA AA-	%0	%20	%20	%20
2	A+ A A-	%20	%20	%50	%50
3	BBB+ BBB BBB-	%50	%20	%50	%100
4	BB+ BB BB-	%100	%50	%100	%100
5	B+ B B-	%100	%50	%100	%150
6	CCC+ CCC CCC- CC C D	%150	%150	%150	%150
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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)
e. Credit risk using the standard approach:
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	8,990,735	-	8,990,735	-	3,364,644	37
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	6,941,729	1,338,212	6,941,729	451,861	3,279,946	44
7	Receivables from corporate	6,499,152	5,326,477	6,499,152	2,626,262	9,012,018	99
8	Retail receivables	4,259,275	4,335,868	4,259,275	1,538,925	4,271,246	74
9	Receivables secured by residential property	5,176,958	642,906	5,176,958	238,600	1,885,452	35
10	Receivables secured by commercial property	6,178,648	1,001,579	6,178,648	452,901	4,176,281	63
11	Non-performing receivables	105,115	-	105,115	-	89,405	85
12	Receivables in high-risk categories	56,985	-	56,985	-	85,478	150
13	Mortgage-backed securities	-	-	-	-	-	-
14	Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Investments similar to collective investment funds	83,760	-	83,760	-	39,005	47
16	Other receivables	3,931,025	-	3,931,025	-	1,589,075	40
17	Equity share investments	-	-	-	-	-	-
18	Total	42,223,382	12,645,042	42,223,382	5,308,549	27,792,550	674

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

e. Credit risk using the standard approach:

Credit risk exposed and credit risk mitigation effects:

Risk Classes / Risk Weights *		0%	10%	20%	5%0	75%	100%	150%	200%	Others *	Total risk amount (post-CCF and CRM)
1	Receivables from central governments and Central Banks	2,245,952	-	25,824	6,718,959	-	-	-	-	-	8,990,735
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	9,456	-	1,831,157	5,278,761	-	273,979	237	-	-	7,393,590
7	Receivables from corporate	50,136	-	79,075	-	-	8,996,203	-	-	-	9,125,414
8	Retail receivables	74,628	-	38,968	-	5,684,604	-	-	-	-	5,798,200
9	Receivables secured by residential property	21,702	-	15,983	-	-	-	-	-	5,377,873	5,415,558
10	Receivables secured by commercial property	33,251	-	68,235	4,734,858	-	1,795,205	-	-	-	6,631,549
11	Non-performing receivables	5	-	2	31,406	-	73,702	-	-	-	105,115
12	Receivables in high-risk categories	-	-	-	-	-	-	56,980	-	-	56,980
13	Mortgage-backed securities	-	-	-	-	-	-	-	-	-	-
14	Short term receivables to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
15	Investments similar to collective investment funds	17,205	-	3,662	49,241	-	13,652	-	-	-	83,760
16	Equity share investments	-	-	-	-	-	-	-	-	-	-
17	Other receivables	2,326,223	-	19,657	-	-	1,585,145	-	-	-	3,931,025
18	Total	4,778,558	-	2,082,563	16,813,225	5,684,604	12,737,886	57,217	-	5,377,873	47,531,931

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

f. Risk amounts according to risk weights:

Current Period	0%	10%	20%	35%	50%	75%	100%	150%	200%	Deductions
Risk Weights										from Equity
Exposures before										
Credit Risk										
Mitigation	4,598,836	-	1,880,300	5,415,558	16,892,523	5,798,200	12,889,292	57,217	-	100,647
Exposures after										
Credit Risk										
Mitigation	4,778,558	-	2,082,563	5,377,873	16,813,225	5,684,604	12,737,886	57,217	-	100,647
Prior Period	0%	10%	20%	35%	50%	75%	100%	150%	200%	Deductions
Risk Weights										from Equity
Exposures before										
Credit Risk										
Mitigation	7,860,611	-	4,619,478	-	9,640,423	3,745,657	14,930,313	129,019	104,695	-
Exposures after										
Credit Risk										
Mitigation	8,227,307	-	4,619,478	-	9,640,423	3,655,406	14,653,972	128,915	104,695	-

g. 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. For such credits, “specific provisions” are allocated as per the Provisioning Regulation.

Past Due Loans; are the credits that overdue up to 90 days but not impaired. For such credits, “general provisions” are allocated as per the Provisioning Regulation

Current Period	Credits		Provisions	
	Impaired Credits	Past due Credits	Value Adjustments (*)	Provisions
Agriculture	12,911	7,418	149	6,356
Farming and Stockbreeding	2,096	2,880	59	1,371
Forestry	5,496	3,700	74	2,538
Fishery	5,319	838	16	2,447
Manufacturing	151,649	356,287	7,237	118,278
Mining and Quarrying	40,872	101,654	1,958	36,822
Production	107,475	245,392	5,067	79,288
Electricity, Gas and Water	3,302	9,241	212	2,168
Construction	207,297	329,181	6,821	171,501
Services	304,037	556,834	11,171	241,443
Wholesale and Retail Trade	225,312	361,914	7,209	181,142
Accommodation and Dining	11,949	49,255	1,015	6,748
Transportation and				
Telecommunication	43,191	73,849	1,505	37,382
Financial Institutions	-	43	1	-
Real Estate and Rental Services.	7,244	33,227	643	5,248
Professional Services	-	-	-	-
Educational Services	1,106	6,629	133	1,042
Health and Social Services	15,235	31,917	665	9,881
Others	72,720	294,429	5,685	48,941
Total	748,614	1,544,149	31,063	586,519

(*) The general provision amount is presented for past due loans.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

g. Information by major sectors and type of counterparties (Continued)

Prior Period	Credits		Provisions	
	Impaired Credits	Past due Credits	Value Adjustments (*)	Provisions
Agriculture	6,600	5,595	239	5,166
Farming and Stockbreeding	2,942	2,269	90	2,067
Forestry	3,096	2,238	101	2,567
Fishery	562	1,088	48	532
Manufacturing	98,473	255,518	10,558	75,743
Mining and Quarrying	12,073	47,454	2,159	9,212
Production	86,085	198,159	8,004	66,437
Electricity, Gas and Water	315	9,905	395	94
Construction	66,057	346,333	13,421	49,253
Services	150,694	421,770	16,898	100,763
Wholesale and Retail Trade	114,725	297,211	12,799	79,192
Accommodation and Dining	3,208	16,451	581	2,240
Transportation and				
Telecommunication	18,316	64,514	2,005	10,197
Financial Institutions	-	2,007	53	-
Real Estate and Rental Services.	2,360	14,114	585	902
Professional Services	-	-	-	-
Educational Services	101	243	9	49
Health and Social Services	11,984	27,230	866	8,183
Others	134,491	189,335	4,526	99,482
Total	456,315	1,218,551	45,642	330,407

(*) The general provision amount is presented for past due loans.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations on consolidated Credit Risk (Continued)

h. Movements in value adjustments and provisions

Current Period	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments(*)	Closing Balance
Specific Provisions	330,407	464,013	(57,039)	(150,862)	586,519
General Provisions	334,118	-	(15,293)	-	318,825

Prior Period	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments(*)	Closing Balance
Specific Provisions	409,218	337,621	(83,247)	(333,185)	330,407
General Provisions	240,776	93,342	-	-	334,118

(*) Represents written-off loans.

i. Risk involved in counter-cyclical capital buffer calculation

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
Turkey	19,123,206	-	19,123,206
Bahrain	227,215	-	227,215
Saudi Arabia	46,600	-	46,600
Marshall Islands	45,215	-	45,215
Albania	23,913	-	23,913
Kuwait	21,803	-	21,803
Uzbekistan	12,055	-	12,055
Burundi	8,469	-	8,469
United Arab Emirates	5,739	-	5,739
Germany	5,375	-	5,375
Other	18,941	-	18,941

i. 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 2016.

	Cash Loans	Non-Cash Loans	Total
High Quality	33%	69%	42%
Medium Quality	23%	13%	20%
Average	15%	7%	13%
Below Average	3%	1%	3%
Unrated	26%	10%	22%

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. 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 2016, the Group carries a net foreign currency long position of TL 4,261,855 (31 December 2015 – TL 1,002,481 long position) comprising of TL 4,152,382 off-balance sheet short position (31 December 2015 - TL 899,306 short position) and TL 109,473 off balance sheet long position (31 December 2015 – TL 103,175 long position).

The announced current foreign exchange buying rates of the Group as of 31 December 2016 and the previous five working days are as follows (full TL):

	26/12/2016	27/12/2016	28/12/2016	29/12/2016	30/12/2016	Balance sheet evaluation rate
USD	3.5077	3.5041	3.5135	3.5329	3.5318	3.5192
EURO	3.6647	3.6639	3.6711	3.6901	3.6939	3.7099
GBP	4.2962	4.2963	4.3040	4.3231	4.3222	4.3189
CHF	3.4116	3.4075	3.4090	3.4277	3.4393	3.4454
100 JPY	0.0298	0.0299	0.0299	0.0300	0.0303	0.0300

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	3.4822
EUR	3.6767
GBP	4.3424
CHF	3.4096
100 JPY	0.0300

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. Explanations on consolidated currency risk (Continued):

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 (****)	723,762	4,636,678	2,269,747	7,630,187
Banks	4,114,211	433,994	205,288	4,753,493
Financial assets at fair value through profit and loss	-	37,830	-	37,830
Money market placements	-	-	-	-
Available-for-sale financial assets (**)	17,327	1,900,932	-	1,918,259
Loans and finance lease receivables (*)	4,469,844	8,502,920	107,626	13,080,390
Subsidiaries, associates and joint ventures (**)	-	-	-	-
Held-to-maturity investments	-	-	-	-
Derivative financial assets for hedging purposes	-	-	-	-
Tangible assets	5,469	89	-	5,558
Intangible assets	45,138	-	-	45,138
Other assets	379,906	18,408	240	398,554
Total assets	9,755,657	15,530,851	2,582,901	27,869,409
Liabilities				
Current account and funds collected from Banks via participation accounts	34,458	61,153	440,108	535,719
Current and profit sharing accounts FC (****)	3,040,234	8,493,291	2,023,589	13,557,114
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	95,550	4,462,987	638,997	5,197,534
Marketable securities issued	-	4,174,842	-	4,174,842
Miscellaneous payables	6,612	28,469	414	35,495
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities (*****)	28,728	53,777	24,345	106,850
Total liabilities	3,205,582	17,274,519	3,127,453	23,607,554
Net balance sheet position	6,550,075	(1,743,668)	(544,552)	4,261,855
Net off-balance sheet position	(6,447,687)	1,761,924	533,381	(4,152,382)
Financial derivative assets	311,483	3,966,378	1,158,845	5,436,706
Financial derivative liabilities	6,759,170	2,204,454	625,464	9,589,088
Non-cash loans (***)	1,653,815	2,698,112	360,108	4,712,035
Prior period				
Total assets	5,578,821	15,015,174	1,963,997	22,557,992
Total liabilities	2,907,551	16,570,385	2,077,575	21,555,511
Net balance sheet position	2,671,270	(1,555,211)	(113,578)	1,002,481
Net off-balance sheet position	(2,627,455)	1,632,270	95,879	(899,306)
Financial derivative assets	431,591	4,183,696	1,038,566	5,653,853
Financial derivative liabilities	3,059,046	2,551,426	942,687	6,553,159
Non-cash loans (***)	1,391,637	2,607,875	319,972	4,319,484

(*) Includes foreign currency indexed loans amounting to TL 7,272,665 (31 December 2015 – TL 6,353,696) followed as TL on the balance sheet.

(**) Includes TL 714 (31 December 2015 – TL 714) of foreign currency denominated available for sale financial assets, which are followed in Turkish Lira as TL 3,752,727 on the balance sheet.

(***) 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 30,177 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 73,702 and TL 548 respectively are not included in currency risk of the Bank.

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 87,833 (31 December 2015 – TL 32,613)
- Prepaid expenses : TL 646 (31 December 2015 – TL 1,343)
- Derivative financial liabilities held for trading : TL 79,147 (31 December 2015 – TL 61,561)
- Marketable securities of FC revaluation reverse: TL 30,347 (31 December 2015 – TL 3,831)
- Derivative financial liabilities held for hedging : TL 137,829 (31 December 2015- TL 98,650)

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. Explanations on consolidated currency risk (Continued):

Currency risk of the Group (Continued):

Receivables/Payables related to derivative financial instruments include foreign currency purchase/sale transactions that are amounting to;

- Forward foreign currency purchase transactions TL 306,728 (31 December 2015 - TL 257,398)
- Forward foreign currency sale transactions: TL 403,440 (31 December 2015 - TL 223,967)

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		Effects on equity	
		Current period	Prior period	Current period	Prior period
USD	% 10	1,826	7,706	(1,209)	7,323
EURO	% 10	10,239	4,382	10,239	4,382
GOLD	% 10	(11,023)	33,967	(11,023)	33,967

IV. Explanations on position risk of equity securities in banking book

- a. **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.

- b. **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 Equity Securities (shares)	Carrying Value	Comparison	
		Fair Value	Market Value
1 Securities Available-for-Sale (*)	53,485	-	-
Quoted Securities	-	-	-
2 Investments in Associates	-	-	-
Quoted Securities	-	-	-
3 Investment in Subsidiaries	23,680	-	-
Quoted Securities	-	-	-
4 Other	15,301	-	-
Quoted Securities	-	-	-

Prior Period Equity Securities (shares)	Carrying Value	Comparison	
		Fair Value	Market Value
1 Securities Available-for-Sale (*)	64,815	-	-
Quoted Securities	-	-	-
2 Investment in Subsidiaries	-	-	-
Quoted Securities	-	-	-
3 Investments in Associates	22,930	-	-
Quoted Securities	-	-	-
4 Other	8,378	-	-
Quoted Securities	-	-	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations on position risk of equity securities in banking book (Continued)

- c. Realized gains/losses, revaluation surpluses and unrealized gains/losses on equity securities and results included in core and supplementary capitals: None.**

V. 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.

a. 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.

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.

b. 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. Explanations on consolidated liquidity risk (Continued)

c. 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.

ç. 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.

d. 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.

e. 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.

f. 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. Explanations on consolidated liquidity risk (Continued)
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 2016								
Collective Fundings	27,826,381	3,134,948	1,036,181	15,468	-	32,012,978	-	32,012,978
Other Fundings	441,003	589,379	2,115,235	3,744,760	-	6,890,377	(1,633,989)	5,256,388
Funds provided unde repurchase agreements	1,258,349	-	-	-	-	1,258,349	(38,476)	1,219,873
Issued Securities	191,733	475,657	274,014	2,434,770	1,669,596	5,045,770	(290,357)	4,755,413
Borrowings from Leasings	-	-	229	-	-	229	(3)	226
Total	29,717,466	4,199,984	3,425,659	6,194,998	1,669,596	45,207,703	(1,962,825)	43,244,878
31 December 2015								
Collective Fundings	23,940,407	3,164,868	1,009,467	10,558	-	28,125,300	-	28,125,300
Other Fundings	174,672	273,397	1,399,511	2,428,656	-	4,276,236	(640,117)	3,636,119
Funds provided under repurchase agreements	712,538	-	-	-	-	712,538	(996)	711,542
Issued Securities	435,315	549,475	3,190,541	141,723	613,859	4,930,913	(79,536)	4,851,377
Borrowings from Leasings	-	-	165	-	-	165	(34)	131
Total	25,262,932	3,987,740	5,599,684	2,580,937	613,859	38,045,152	(720,683)	37,324,469

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 2016								
Letters of Guarantee	3,914,848	166,539	572,861	1,876,238	1,471,708	113,831	-	8,116,025
Bills of Exchange and Bank Acceptances	148	5,407	15,320	28,850	2,319	-	-	52,044
Letters of Credit	369,976	76,908	247,672	268,172	57,058	-	-	1,019,786
Other guarantees	150,651	263	2,284	302,238	220,284	-	-	675,720
Pre-financings given as guarantee	25,642	-	-	-	-	-	-	25,642
Total	4,461,265	249,117	838,137	2,475,498	1,751,369	113,831	-	9,889,217
31 December 2015								
Letters of Guarantee	3,299,553	121,122	515,800	1,665,444	1,612,979	125,318	-	7,340,216
Bills of Exchange and Bank Acceptances	84,108	-	-	-	-	-	-	84,108
Letters of Credit	1,018,404	-	233	3,763	6,864	-	-	1,029,264
Other guarantees	332,410	1,208	21,352	3,024	124,006	-	-	482,000
Pre-financings given as guarantee	21,290	-	-	-	-	-	-	21,290
Total	4,755,765	122,330	537,385	1,672,231	1,743,849	125,318	-	8,956,878

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. Explanations on consolidated liquidity risk (Continued)

Contractual maturity analysis of derivative instruments:

31 December 2016	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	7,742,474	1,354,727	232,490	-	-	9,329,691
Exit	7,751,615	1,351,680	223,921	-	-	9,327,216
Hedging purposes financial assets						
Foreign exchange derivatives						
Entry	-	-	-	628,152	-	628,152
Exit	-	-	-	762,972	-	762,972
Total Cash Inflow	7,742,474	1,354,727	232,490	628,152	-	9,957,843
Total Cash Outflow	7,751,615	1,351,680	223,921	762,972	-	10,090,188

31 December 2015	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	4,263,483	998,257	994,142	291	-	6,256,173
Exit	4,272,317	998,665	1,016,231	323	-	6,287,536
Hedging purposes financial assets						
Foreign exchange derivatives						
Entry	-	-	-	542,440	-	542,440
Exit	-	-	-	630,376	-	630,376
Total Cash Inflow	4,263,483	998,257	994,142	542,731	-	6,798,613
Total Cash Outflow	4,272,317	998,665	1,016,231	630,699	-	6,917,912

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. Explanations on consolidated liquidity risk (Continued)

Liquidity Coverage Ratio

<i>Current Period</i>		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)	7,248,378	6,328,808	6,144,352	5,224,782
Cash Outflows					
2	Retail deposits and deposits from small business customers, of	23,479,779	9,318,830	1,517,332	597,257
3	Stable deposits	16,612,915	6,692,505	830,646	334,625
4	Less stable deposits	6,866,864	2,626,325	686,686	262,632
5	Unsecured wholesale funding, of which:	6,214,737	2,217,841	3,845,879	934,698
6	Operational deposits	2,319,448	1,241,513	579,862	310,379
7	Non-operational deposits	2,213,026	912,697	1,583,754	560,688
8	Unsecured funding	1,682,263	63,631	1,682,263	63,631
9	Secured wholesale funding	-	-	-	-
10	Other cash outflows of which	5,309,816	2,511,422	424,294	274,342
11	Outflows related to derivative exposures and other collateral requirements	10,561	-	10,561	-
12	Outflows related to restructured financial	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	5,299,255	2,511,422	413,733	274,342
14	Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15	Other irrevocable or conditionally revocable off-balance sheet obligations	-	-	-	-
16	Total Cash Outflows			5,787,505	1,806,297
Cash Inflows					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	4,589,956	4,468,844	662,942	595,905
19	Other cash inflows	44,971	3,350,234	44,971	3,350,234
20	Total Cash Inflows	4,634,927	7,819,078	707,913	3,946,139
				Üst Sınır Uygulanmış Değer	
21	Total HQLA			6,144,352	5,224,782
22	Total Net Cash Outflows			5,079,592	451,574
23	Liquidity Coverage Ratio (%)			120.96	1,157.02

(*) The average of last three months' liquidity coverage ratio calculated by quarterly simple averages.

The table below presents highest, lowest and average liquidity coverage ratios as of 31 December 2016:

	Highest	Date	Lowest	Date	Average
TL+FC	294.78	08.01.2016	110.53	30.12.2016	166.66
FC	1,498.10	05.08.2016	393.39	25.03.2016	1,132.26

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. Explanations on consolidated liquidity risk (Continued)

Liquidity Coverage Ratio (Continued)

<i>Prior Period</i>		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)	7,152,259	6,495,841	5,892,554	5,236,137
Cash Outflows					
2	Retail deposits and deposits from small usiness customers, of which:	20,207,987	9,032,118	1,283,873	571,159
3	Stable deposits	14,738,520	6,641,070	736,926	332,054
4	Less stable deposits	5,469,467	2,391,048	546,947	239,105
5	Unsecured wholesale funding, of which:	5,117,630	2,361,450	2,829,696	984,199
6	Operational deposits	1,695,445	896,461	423,861	224,115
7	Non-operational deposits	2,025,354	1,413,310	1,027,916	708,405
8	Unsecured funding	1,396,831	51,679	1,377,919	51,679
9	Secured wholesale funding	-	-	-	-
10	Other cash outflows of which	5,513,306	3,014,714	649,792	500,221
11	Outflows related to derivative exposures and other collateral requirements	25,821	-	25,821	-
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	5,487,485	3,014,714	623,971	500,221
14	Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15	Other irrevocable or conditionally revocable off-balance sheet obligations	-	-	-	-
16	Total Cash Outflows			4,763,361	2,055,579
Cash Inflows					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	5,100,784	4,292,418	1,230,262	829,902
19	Other cash inflows	69,691	617,479	69,691	617,479
20	Total Cash Inflows	5,170,475	4,909,897	1,299,953	1,447,381
21	Total HQLA			5,892,554	5,236,137
22	Total Net Cash Outflows			3,463,409	645,360
23	Liquidity Coverage Ratio (%)			170.14	811.35

(*) The average of last three months' liquidity coverage ratio calculated by quarterly simple averages.

The table below presents highest, lowest and average liquidity coverage ratios of the year 2015:

	Highest	Date	Lowest	Date	Average
TL+FC	318.35	27.03.2015	166.26	02.01.2015	227.12
FC	991.79	11.12.2015	181.55	02.01.2015	565.20

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

V. Explanations on consolidated liquidity risk (Continued)

Presentation of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 month	1-3 Months	3-12 months	1-5 years	Over 5 years	Unallocated (**)	Total
Current period								
Assets								
Cash (cash in vault, effectives, cash in transit, Cheques purchased) and balances with the Central Bank of the Republic of Turkey	2,653,914	5,671,900	-	-	-	-	-	8,325,814
Banks	4,770,285	-	10,095	-	-	-	-	4,780,380
Financial assets at fair value through profit and loss	-	69,433	72,561	7,549	12,176	-	-	161,719
Money market placements	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	1,393,256	443,349	43,704	1,331,415	440,199	100,804	3,752,727
Loans (*)	-	5,024,985	3,884,576	9,724,576	9,708,931	1,673,819	162,339	30,179,226
Held-to-maturity investments	-	-	-	-	-	-	-	-
Other assets (**)	411,728	271,885	97,712	-	118,112	-	626,732	1,526,169
Total assets	7,835,927	12,431,459	4,508,293	9,775,829	11,170,634	2,114,018	889,875	48,726,035
Liabilities								
Current account and funds collected from banks via participation accounts	532,559	7,630	-	513	-	-	-	540,702
Current and profit sharing accounts	11,500,073	15,786,119	3,134,948	1,035,668	15,468	-	-	31,472,276
Funds provided from other financial institutions	-	440,178	589,602	2,088,598	870,471	1,267,765	-	5,256,614
Money market borrowings	-	1,219,873	-	-	-	-	-	1,219,873
Marketable securities issued	-	-	-	588,987	4,166,426	-	-	4,755,413
Miscellaneous payables	116,312	52,044	793	-	-	-	-	169,149
Other liabilities (**)	-	445,759	97,132	4,138	137,829	-	4,627,150	5,312,008
Total liabilities	12,148,944	17,951,603	3,822,475	3,717,904	5,190,194	1,267,765	4,627,150	48,726,035
Net liquidity gap	(4,313,017)	(5,520,144)	685,818	6,057,925	5,980,440	846,253	(3,737,275)	-
Prior period								
Total assets	6,152,724	10,805,387	4,595,348	8,812,202	9,610,926	1,322,706	795,703	42,094,996
Total liabilities	9,372,990	16,432,062	4,000,087	4,403,000	3,263,140	589,726	4,033,991	42,094,996
Net liquidity gap	(1,651,989)	(3,461,039)	(1,847,558)	4,575,309	4,745,861	490,789	(2,851,373)	-

(*) 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VI. Explanations on consolidated leverage ratio

Leverage ratio:

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		<i>Current Period</i> (*)	<i>Prior Period</i> (*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	47,713,307	42,431,360
2	(Assets deducted in determining Tier I capital)	(218,855)	(237,229)
3	Total on-balance sheet risks (sum of lines 1 and 2)	47,494,452	42,194,131
Derivative financial instruments and credit derivatives			
4	Replacement cost associated with all derivative instruments and credit derivatives	90,391	-
5	Add-on amounts for PFE associated with all derivative instruments and credit derivatives	115,612	99,214
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5)	206,003	99,214
Securities or commodity financing transactions (SCFT)			
7	Risks from SCFT assets (excluding on-balance sheet)	247,175	673,233
8	Risks from brokerage activities related exposures	-	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8)	247,175	673,233
Other off-balance sheet transactions			
10	Gross notional amounts of off-balance sheet transactions	41,997,030	37,198,861
11	(Adjustments for conversion to credit equivalent amounts)	(24,926,904)	(22,663,134)
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	17,070,126	14,535,727
Capital and total risks			
13	Tier I capital	3,810,218	3,214,404
14	Total risks (sum of lines 3, 6, 9 and 12)	65,017,756	57,502,305
Leverage ratio			
15	Leverage ratio	5.86	5.59

(*) Amounts in the table are three-month average amounts.

In standalone basis, 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 5.86% (31 December 2015 – 5.59%) 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, while balance sheet items not increased, the core capital was increased by 18.53% due to increase in profit, off balance sheet items showed a 12.89% increase. Accordingly, the leverage ratio of the current period compared to the previous year shows an increase of 27 basis points.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VII. 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.

Current Period	Book Value		Fair Value	
	Current period	Prior period	Current period	Prior period
Financial Assets				
Banks	4,780,380	3,629,516	4,780,380	3,629,516
Financial assets available for sale	3,752,727	2,355,099	3,752,727	2,355,099
Loans and lease receivables	30,017,131	27,045,993	29,741,737	27,704,683
Financial Liabilities				
Current account and funds collected from banks via participation accounts.	540,702	180,444	540,702	180,444
Other current and profit sharing accounts	31,472,276	27,944,856	31,472,276	27,944,856
Money market balances	1,219,873	711,542	1,219,873	711,542
Funds provided from other financial institutions	5,256,614	4,851,508	5,565,826	4,959,310
Miscellaneous payables	4,755,413	3,636,119	4,794,549	3,666,725
Payables from leasing transactions	169,149	126,289	169,149	126,289

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.

VIII. 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.

IX. 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 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

a. Explanations on risk management and risk weighted amounts:

1. Risk weighted amounts:

		Risk Weighted Amounts		Minimum Capital
		Current Period 31.12.2016	Prior Period 31.12.2015	Current Period 31.12.2016
1	Credit risk (excluding counterparty credit risk) (CCR) ^(*)	27,753,547	23,609,084	2,220,284
2	Of which standardised approach (SA)	27,792,552	23,609,084	2,223,404
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	94,652	15,602	7,572
5	Of which standardised approach for counterparty credit risk (SA-CCR)	94,652	15,602	7,572
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	39,005	-	3,120
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	734,695	755,386	58,776
17	Of which standardised approach (SA)	734,695	755,386	58,776
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	2,877,204	2,307,997	230,176
20	Of which basic indicator approach	2,877,204	2,307,997	230,176
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)	31,499,103	26,688,069	2,519,928

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

a. Explanations on risk management and risk weighted amounts (Continued):

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 of items in accordance with Turkish Accounting Standards					
		Carrying values in financial statements prepared as per legal consolidation	Subject to credit risk	Subject to counterparty credit risk	Securitization positions	Subject to market risk	Not subject to capital risk or subject to deduction from capital
Assets							
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances With Central Bank of Turkey	8,325,814	8,325,814	8,325,814	-	-	-	-
Financial Assets Held for Trading	161,719	161,719	-	110,050	-	51,669	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-	-
Banks	4,780,380	4,780,380	4,780,380	-	-	-	-
Receivables from money markets	-	-	-	-	-	-	-
Available for sale financial assets (net)	3,752,727	3,752,727	3,752,727	-	-	-	-
Loans and receivables	28,634,683	28,634,683	28,634,683	-	-	-	-
Factoring receivables	-	-	-	-	-	-	-
Held to maturity investments (net)	-	-	-	-	-	-	-
Investments in associates (net)	-	-	-	-	-	-	-
Investments in subsidiaries (net)	23,680	23,680	23,680	-	-	-	-
Investments in joint ventures (net)	15,301	15,301	15,301	-	-	-	-
Leasing receivables	1,544,543	1,544,543	1,544,543	-	-	-	-
Derivative financial assets held for hedges	-	-	-	-	-	-	-
Tangible assets (net)	445,172	445,172	445,172	-	-	-	-
Intangible assets (net)	140,466	140,466	140,466	-	-	-	-
Investment properties (net)	-	-	-	-	-	-	-
Tax assets	118,111	118,111	118,111	-	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	47,975	47,975	42,767	-	-	-	5,208
Other Assets	735,464	735,464	735,464	-	-	-	-
Total Assets	48,726,035	48,726,035	48,559,108	110,050	-	51,669	5,208

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

a. Explanations on risk management and risk weighted amounts (Continued):

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 of items in accordance with Turkish Accounting Standards					
		Carrying values in financial statements prepared as per legal consolidation	Subject to credit risk	Subject to counterparty credit risk	Securitization positions	Subject to market risk	Not subject to capital risk or subject to deduction from capital
Liabilities							
Deposits	32,012,978	32,012,978	-	-	-	-	32,012,978
Derivative Financial Liabilities Held for Trading	119,727	119,727	-	-	-	-	119,727
Loans borrowed	3,274,742	3,274,742	-	-	-	-	3,274,742
Debt to money markets	1,219,873	1,219,873	-	1,219,873	-	-	-
Debt securities issued	4,755,413	4,755,413	-	-	-	-	-
Funds	-	-	-	-	-	-	-
Various debts	169,149	169,149	-	-	-	-	169,149
Other liabilities	439,785	439,785	-	-	-	-	439,785
Factoring debts	-	-	-	-	-	-	-
Debts from leasing transactions	226	226	-	-	-	-	226
Derivative financial liabilities held for hedges	137,829	137,829	-	-	-	-	137,829
Provisions	583,004	583,004	-	-	-	-	583,004
Tax Liability	27,842	27,842	-	-	-	-	27,842
Liabilities included in disposal groups classified as held for sale (net)	-	-	-	-	-	-	-
Subordinated Debts	1,981,646	1,981,646	-	-	-	-	1,981,646
Equity	4,003,821	4,003,821	-	-	-	-	4,003,821
Total Liabilities	48,726,035	48,726,035	-	1,219,873	-	-	47,506,162

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

a. Explanations on risk management and risk weighted amounts (Continued):

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)	48,726,035	48,559,108	-	110,050	51,669
2- Carrying Value of Liabilities in Accordance with TAS (as per template 1B)	-	-	-	1,219,873	-
3- Total net amount	48,726,035	48,559,108	-	1,109,823	51,669
4- Off-balance sheet amounts	65,243,854	5,308,549	-	234,821	20,048,031
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	113,969,889	53,867,657	-	1,344,644	20,099,700

b. General qualitative information on credit risk:

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 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 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.

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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

b. General qualitative information on credit risk (Continued):

2. Criteria and approach used for defining credit risk policy and for setting credit risk limits (Continued):

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.

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.

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 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 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 Group'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 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.

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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

b. General qualitative information on credit risk (Continued)

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 (Continued):

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.

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:

		<i>Gross carrying value as per TAS</i>			
		<i>Defaulted</i>	<i>Non-defaulted</i>	<i>Allowances/amortisation and impairments</i>	<i>Net values</i>
1	Loans	748,614	30,017,131	586,519	30,179,226
2	Debt securities	-	3,801,083	48,356	3,752,727
3	Off-balance sheet exposures(*)	-	22,790,309	334,904	22,455,405
4	Total	748,614	56,608,523	969,779	56,387,358

(*) 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	456,315
2	Loans and debt securities that have defaulted since the last reporting period	480,060
3	Receivables back to non-defaulted status	89
4	Amounts written off	150,862
5	Other changes	(36,810)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	748,614

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on risk management (Continued)

b. General qualitative information on credit risk (Continued):

6. Qualitative disclosures related to the credit quality of assets

a) 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.

b) The part of the overdue receivables (past 90 days) for which provision is not allocated and reasons for this application

None.

c) Definitions of the methods used when determining the provision amount

It includes the loans or other receivables classified in the third, fourth and fifth groups and minimum required statutory reserve ratios indicated in paragraph 8 of the Communiqué on Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves and minimum statutory collateral consideration ratios required indicated in paragraph 9 of the same legislation.

d) Definitions of restructured receivables

According to the Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves, restructuring for the performing and non-performing loans means new contractual conditions only for the loan obligators encountered or likely to be encountered in repayment as a result of financial difficulties, excluding loan obligators with no repayment difficulties.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

b. General qualitative information on credit risk (Continued):

6. Qualitative disclosures related to the credit quality of assets (Continued)

e) Breakdown of exposures by geographical areas, industry and ageing:

Current Period	Loans Under Follow-Up	Specific Provisions	Write-Offs
Domestic	747,396	585,146	150,856
European Union (EU) Countries	595	839	6
OECD Countries	15	15	-
Off-Shore Banking Countries	-	-	-
USA, Canada	-	-	-
Other Countries	608	519	-
Total	748,614	586,519	150,862

	<i>Loans Under Follow-Up</i>	Specific Provisions	Write-Offs
Agriculture	12,911	6,356	2,326
Farming and Stockbreeding	2,096	1,371	255
Forestry	5,496	2,538	1,793
Fishery	5,319	2,447	278
Manufacturing	151,649	118,278	31,588
Mining and Quarrying	40,872	36,822	3,265
Production	107,475	79,288	28,173
Electricity, Gas and Water	3,302	2,168	150
Construction	207,297	171,501	19,836
Services	304,037	241,443	67,520
Wholesale and Retail Trade	225,312	181,142	58,073
Accommodation and Dining	11,949	6,748	734
Transportation and Telecommunication	43,191	37,382	5,510
Financial Institutions	-	-	1
Real Estate and Rental Services	7,244	5,248	406
Professional Services	-	-	-
Educational Services	1,106	1,042	193
Health and Social Services	15,235	9,881	2,603
Other	72,720	48,941	29,592
TOTAL	748,614	586,519	150,862

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

b. General qualitative information on credit risk (Continued):

6. Qualitative disclosures related to the credit quality of assets (Continued)

e) Breakdown of exposures by geographical areas, industry and ageing (Continued):

Current period	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	5 Years and Over
Corporate and Commercial Loans	207,493	251,890	207,079	24,945	17,798
Retail Loans	4,472	12,574	7,968	1,344	372
Credit cards	3,220	8,213	955	182	109
Other	-	-	-	-	-
Total	215,185	272,677	216,002	26,471	18,279

f) Credit risk mitigation techniques

The Bank applies the Comprehensive Financial Collateral Techniques explained in “Credit Risk Mitigation Techniques Communiqué” published in Official Gazette No. 28337 as of 28 June 2012.

There is no balance sheet and off-balance sheet offsetting.

Credit risk mitigation techniques used by the Bank in terms of credit facility are listed as follows:

- Financial Collaterals (Cash, Deposit Pledges, Gold)
- Guarantees
- Real Estate Mortgage

Financial collaterals are evaluated on a daily basis.

For loans that are amounting over TL 3,000 or loans amounting to over 5% of the equity, real estate valuation should be repeated minimum every 3 year by the rating companies authorized from the Banking Regulation and Supervision Agency or Capital Markets Boards of Turkey.

Volatility in real estate market is closely monitored by the Bank; valuations for real estate for commercial real estates are revised at least every year whereas housing real estates are revised at least in every 3 years.

	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	26,003,164	4,176,062	381,985	-	-	-	-
2 Debt securities	3,752,727	-	-	-	-	-	-
3 Total	29,755,891	4,176,062	381,985	-	-	-	-
4 Overdue	161,769	326	41	-	-	-	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

c. Explanations on Counterparty Credit Risk (CCR):

a) 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.

b) 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.

c) 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.

d) 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.

e) 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.

f) 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)	110,039	124,782	-	1.4	256,075	94,652
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						94,652

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

c. Explanations on Counterparty Credit Risk (CCR) (Continued):

g) 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 3×multiplier)	-	-
2	(ii) Stressed VaR component (including the 3×multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital obligation	234,821	21,254
4	Total subject to the CVA capital obligation	234,821	21,254

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

c. Explanations on Counterparty Credit Risk (CCR) (Continued):

h) 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	1,181,398	-	-	-	-	-	-	-	-	1,181,398
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	-	-	169,004	42,042	-	-	-	-	-	211,046
7	Receivables from corporate	-	-	-	-	-	12,272	-	-	-	12,272
8	Retail receivables	-	-	-	-	2,048	-	-	-	-	2,048
9	Receivables secured by residential property	-	-	-	-	-	-	-	-	4,057	4,057
10	Receivables secured by commercial property	-	-	-	4,097	-	1,300	-	-	-	5,397
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	1,181,398	-	169,004	46,139	2,048	13,572	-	-	4,057	1,416,218

* 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

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

d. Explanations on securitization positions

None.

e. Qualitative explanations on market risk

1. Bank'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 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 Group 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 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 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

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

e. Qualitative explanations on market risk (Continued)

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.

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.

The details of the market risk calculated as of 31 December 2016 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:

4. Market risk under standardised approach:

		Risk Weighted Amounts	
		Current Period	Prior Period
	Outright products	734,695	761,924
1	Profit share risk (general and specific)	398,423	653,973
2	Equity risk (general and specific)	-	425
3	Foreign exchange risk	277,222	55,636
4	Commodity risk	59,050	51,890
	Options	-	-
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation	-	-
9	Total	734,695	761,924

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

f. 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, 2015, 2014 and 2013 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 232,067 corresponding to the 8% of TL 2,900,835 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 232,067 also defines the minimum capital sum which is required in order to eliminate the mentioned risk.

Current Period	31/12/2013 Amount	31/12/2014 Amount	31/12/2015 Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	1,192,861	1,493,752	1,916,914	1,534,509	15	230,176
Value at Operational Risk (Total*12.5)						2,877,204

Prior Period	31/12/2012 Amount	31/12/2013 Amount	31/12/2014 Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	951,730	1,192,861	1,493,752	1,212,781	15	181,917
Value at Operational Risk (Total*12.5)						2,273,963

g. Profit-share rate risk related to banking book:

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	(390,520)	(6.87)%
2	TRY	(-) 400bp	371,356	6.53%
3	USD	(+) 200bp	304,557	5.36%
4	USD	(-) 200bp	(352,670)	(6.21)%
5	EURO	(+) 200bp	43,591	0.77%
6	EURO	(-) 200bp	(45,914)	(0.81)%
	Total (For negative shocks)		(27,228)	(0.49)%
	Total (For positive shocks)		(42,372)	(0.74)%

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

g. Profit-share rate risk related to banking book (Continued):

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 (Continued):

Prior Period:

	Currency	Applied Shock (+/- x basis points)	Gains/Losses	Gains/Shareholder's equity- Losses/shareholder's equity
1	TRY	(+) 500bp	(443,773)	(11.69)%
2	TRY	(-) 400bp	420,405	11.07%
3	USD	(+) 200bp	82,824	2.15%
4	USD	(-) 200bp	(87,057)	(2.26)%
5	EURO	(+) 200bp	33,678	0.89%
6	EURO	(-) 200bp	(36,508)	(0.96)%
	Total (For negative shocks)		296,840	7.85%
	Total (For positive shocks)		(327,271)	(8.65)%

h. 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. Explanations on consolidated risk management (Continued)

h. Risk management objectives and policies (Continued):

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: Inputs other than quoted prices included within Level 1 that are observable market information for the assets or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that is not based on observable market information.

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 2016 and 31 December 2015 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	51,669	110,050	-	161,719
Forward transactions	-	22,304	-	22,304
Swap transactions	-	87,746	-	87,746
Government debt securities	46,908	-	-	46,908
Other marketable securities	4,761	-	-	4,761
Available-for-sale financial assets	3,752,727	-	-	3,752,727
Equity securities	53,485	-	-	53,485
Government debt securities	3,322,032	-	-	3,322,032
Other marketable securities	377,210	-	-	377,210
Financial liabilities				
Financial liabilities held for trading	-	119,727	-	119,727
Forward transactions	-	16,753	-	16,753
Swap transactions	-	102,974	-	102,974
Prior Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	44,006	44,608	-	88,614
Forward transactions	-	15,836	-	15,836
Swap transactions	-	28,772	-	28,772
Government debt securities	100	-	-	100
Other marketable securities	43,906	-	-	43,906
Available-for-sale financial assets	2,355,099	-	-	2,355,099
Equity securities	64,815	-	-	64,815
Government debt securities	1,908,176	-	-	1,908,176
Other marketable securities	382,108	-	-	382,108
Financial liabilities				
Financial liabilities held for trading	-	71,523	-	71,523
Forward transactions	-	13,739	-	13,739
Swap transactions	-	57,784	-	57,784

There are no transfers between Level 1 and Level 2 in the current year.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

X. Explanations on consolidated 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 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 1 January – 31 December 2016	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Total operations of the Group
Operating income	1,635,946	2,152,956	177,099	-	3,966,550
Operating expenses	1,272,947	304,290	542,552	1,137,627	3,257,416
Transfers between segments	897,849	(909,841)	11,992	-	-
Net operating income(loss)	1,260,848	938,825	(353,461)	(1,137,627)	709,134
Income from associates	-	-	-	2,423	2,423
Income (loss) before tax	1,260,848	938,825	(353,461)	(1,135,204)	711,557
Provision for taxation	-	-	-	131,932	132,481
Net income for the period	1,260,848	938,825	(353,461)	(1,267,136)	579,076
Current Period 31 December 2016					
Segment assets	10,479,838	19,277,131	17,442,897	-	47,199,866
Associates, subsidiaries and joint Ventures	-	-	-	38,981	38,981
Undistributed assets	-	-	-	1,487,188	1,487,188
Total assets	10,479,838	19,277,131	17,442,897	1,526,169	48,726,035
Segment liabilities	24,678,208	7,332,820	11,491,406	-	43,502,434
Undistributed liabilities	-	-	-	1,219,780	1,219,780
Shareholders' equity	-	-	-	4,003,821	4,003,821
Total liabilities	24,678,208	7,332,820	11,491,406	5,223,601	48,726,035

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

X. Explanations on consolidated business segments

Specific balance sheet and income statement items according to segments (Continued):

Current Period 1 January – 31 December 2016	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Total operations of the Group
Operating income	1,313,514	1,741,511	144,222	-	3,199,247
Operating expenses	919,979	317,548	413,083	1,006,778	2,657,388
Transfers between segments	497,042	(623,328)	126,286	-	-
Net operating income(loss)	890,577	800,635	(142,575)	(1,006,778)	541,859
Income from associates	-	-	-	(2,227)	(2,227)
Income (loss) before tax	890,577	800,635	(142,575)	(1,009,005)	539,632
Provision for taxation	-	-	-	113,724	113,724
Net income for the period	890,577	800,635	(142,575)	(1,122,729)	425,908
Current Period 31 December 2016					
Segment assets	9,347,138	17,310,032	14,200,574	-	40,857,744
Associates, subsidiaries and joint Ventures	-	-	-	31,308	31,308
Undistributed assets	-	-	-	1,205,944	1,205,944
Total assets	9,347,138	17,310,032	14,200,574	1,237,252	42,094,996
Segment liabilities					
Undistributed liabilities	20,903,234	7,227,938	9,363,470	-	37,494,642
Shareholders' equity	-	-	-	1,152,223	1,152,223
	-	-	-	3,448,131	3,448,131
Total liabilities	20,903,234	7,227,938	9,363,470	4,600,354	42,094,996

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION FIVE

I. Explanations and notes related to assets

a. Cash and balances with the Central Bank of Republic of Turkey:

1. Cash and balances with the Central Bank of Republic of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash/foreign currency	429,341	1,136,330	433,762	1,323,504
The Central Bank of Republic of Turkey	266,286	5,671,920	220,583	5,136,523
Other (*)	-	821,937	8,031	490,211
Total	695,627	7,630,187	662,376	6,950,238

(*) As of 31 December 2016, precious metal account amounting to TL 802,280 (31 December 2015- TL 471,703) and money in transit are presented in this line amounting to TL 19,657 (31 December 2015 – TL 26,539).

2. Balances with the Central Bank of Turkey:

	Current period		Prior period	
	TL	FC	TL	FC
Unrestricted demand deposit	259,936	20	215,802	9
Unrestricted time deposit	-	-	-	-
Restricted time deposit	6,350	5,671,900	4,781	5,136,514
Total	266,286	5,671,920	220,583	5,136,523

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 4% and 10.5% for TL deposits and other liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 11.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 24% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 25% for all foreign currency liabilities).

b. Information on financial assets at fair value through profit and loss:

1. As of 31 December 2016, there are no financial assets at fair value through profit and loss subject to repurchase transactions, given as a collateral or blocked (31 December 2015 – None).

2. Positive Differences Related to Derivative Financial Assets Held-for-Trading:

Derivative financial assets held-for-trading	Current period		Prior period	
	TL	FC	TL	FC
Forward transactions	20,373	1,931	10,574	5,262
Swap transactions	1,844	85,902	1,421	27,351
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	22,217	87,833	11,995	32,613

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

c. Information on Banks:

	Current period		Prior period	
	TL	FC	TL	FC
Banks	26,887	4,753,493	10,341	3,619,174
Domestic	26,859	3,555,895	10,291	1,765,434
Foreign	28	1,197,598	50	1,853,740
Branches and head office abroad	-	-	-	-
Total	26,887	4,753,493	10,341	3,619,174

Information on foreign bank accounts:

	Current period		Prior period	
	Unrestricted Amount	Restricted Amount	Unrestricted Amount	Restricted Amount
EU Countries	689,699	-	1,005,193	-
USA and Canada	393,755	-	647,305	-
OECD Countries (*)	7,893	-	21,339	-
Off-shore Banking Regions	562	-	419	-
Other	105,717	-	179,534	-
Total	1,197,626	-	1,853,790	-

(*) OECD countries other than European Union countries, USA and Canada.

d. Information on financial assets available-for-sale:

	Current Period	Prior Period
Debt Securities	3,699,871	2,293,359
Quoted on stock exchange	3,699,871	2,293,359
Not quoted on stock exchange	-	-
Share certificates	101,212	70,463
Quoted on stock exchange	47,013	4,933
Not quoted on stock exchange	54,199	65,530
Impairment provision (-)	(48,356)	(8,723)
Total	3,752,727	2,355,099

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

d. Information on financial assets available-for-sale (Continued):

The details of the Rent Certificates which are in Bank's Portfolio "Financial Assets Available for-Sale" are presented below as of 31 December 2016

- a) The Bank purchased the rent certificates ("sukuk") as details given table below from private entities that are stated under "Other Securities" in given financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE (%)
XS1082151868	USD	6	ALBARAKA TURK	30/06/2014	30/06/2019	82,691	6.26
XS0922143382	USD	6	TÜRKİYE FİNANS KATILIM BANKASI A.Ş.	02/05/2013	02/05/2018	74,275	3.96
XS1057852912	USD	6	TÜRKİYE FİNANS KATILIM BANKASI A.Ş.	24/04/2014	24/04/2019	23,748	3.96
XS1120403313	USD	6	DUBAI INTERNATIONAL FINANCIAL CENTRE (DIFC)	27/04/2016	12/11/2024	25,687	4.32
XS1241110300	USD	3	DUBAI ISLAMIC BANK PJSC	03/06/2015	03/06/2020	10,570	1.16
XS1505905239	USD	3	IILMH	18/10/2016	18/01/2017	175,960	0.99
XS1523141320	USD	3	IILMH	22/11/2016	22/02/2017	175,960	1.02
XS1532723522	USD	3	IILMH	14/12/2016	14/03/2017	105,576	1.02
TRDTFVK11721	TRY	6	TÜRKİYE FİNANS KATILIM BANKASI A.Ş.	15/07/2016	10/01/2017	437	10.16

- b) In addition; the Bank included rent certificates which are presented below and these amounts are classified under "Government debt securities" at the accompanying financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE (%)
XS0831353361	USD	6	Republic of Turkey Treasury	26/9/2012	26/3/2018	305,154	2.8
XS1141043296	USD	6	Republic of Turkey Treasury	25/11/2014	25/11/2024	295,705	4.48
XS0975124180	USD	6	Republic of Turkey Treasury	26/4/2016	10/10/2018	5,504	4.56
XS1303467077	USD	6	Republic of Turkey Treasury	8/6/2016	8/6/2021	466,673	4.26
TRD140721T18	TRY	6	Republic of Turkey Treasury	20/7/2016	14/7/2021	45,183	9.4
TRD150217T18	TRY	6	Republic of Turkey Treasury	18/2/2015	15/2/2017	453,989	7.80
TRD160817T11	TRY	6	Republic of Turkey Treasury	19/8/2015	16/8/2017	317,004	9.96
TRD140218T18	TRY	6	Republic of Turkey Treasury	17/2/2016	14/2/2018	443,857	10.64
TRD220921T16	TRY	6	Republic of Turkey Treasury	28/9/2016	22/9/2021	172,454	2.24
TRD260918T17	TRY	6	Republic of Turkey Treasury	28/9/2016	26/9/2018	99,696	8.8
TRD21118T18	TRY	6	Republic of Turkey Treasury	23/11/2016	21/11/2018	195,000	10.16

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans:

1. All types of loans and advances given to shareholders and employees of the Bank:

	Current period		Prior period	
	Cash	Non-Cash	Cash	Non-Cash
Direct loans granted to shareholders	998	16,818	1,014	13,543
Corporate shareholders	-	16,656	-	13,543
Real person shareholders	998	162	1,014	-
Indirect loans granted to shareholders	135,364	20,290	126,600	600
Loans granted to employees	14,333	319	11,943	3
Total	150,695	37,427	139,557	14,146

2. Information on first and second category loans and other receivables including restructured or rescheduled loans:

Current 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	
		Extension of Repayment Plan	Other		Extension of Repayment Plan	Other
Cash Loans						
Loans	26,363,086	547,437	-	534,761	1,006,339	-
Financing commodity against document	-	-	-	-	-	-
Exports Loan	19,007	-	-	337	-	-
Imports Loans	1,250,992	-	-	10,420	-	-
Enterprise Loans	16,362,809	540,986	-	337,610	909,349	-
Consumer Loans	5,356,966	6,451	-	145,587	31,340	-
Credit Cards	319,971	-	-	8,637	-	-
Precious Metal Loans	104,024	-	-	-	1,736	-
Loans Given to Financial Sector	609,604	-	-	-	-	-
Loans Extended Abroad	249,977	-	-	3,852	63,914	-
Other	2,089,736	-	-	28,318	-	-
Other Receivables	17,916	-	-	3,049	-	-
Total	26,381,002	547,437	-	537,810	1,006,339	-
Prior Period						
Cash Loans						
Loans	24,278,196	347,322	-	499,331	715,135	-
Financing commodity against document	-	-	-	-	-	-
Exports Loan	22,796	-	-	247	-	-
Imports Loans	1,034,926	-	-	1,981	-	-
Enterprise Loans	15,585,317	287,782	-	329,471	705,718	-
Consumer Loans	4,742,925	5,853	-	126,684	7,896	-
Credit Cards	246,452	-	-	5,967	-	-
Precious Metal Loans	149,169	-	-	2,598	-	-
Loans Given to Financial Sector	195,951	-	-	-	-	-
Loans Extended Abroad	291,164	53,687	-	14,339	1,521	-
Other	2,009,496	-	-	18,044	-	-
Other Receivables	19,064	-	-	4,085	-	-
Total	24,297,260	347,322	-	503,416	715,135	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

2. Information on first and second category loans and other receivables including restructured or rescheduled loan (continued):

In accordance with the Communiqué “Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for These Loans” published in Official Gazette dated 1 November 2006 and numbered 26333, information related to the restructuring (after publish date of the aforementioned Communiqué) of the standard loans and loans and other receivables under close monitoring with respect to the payment schedules and terms is as follows (average maturities are taken into the account):

Current Period	Number of Extensions for Repayment Plan	
	Performing Loans and Other Receivables	Loans and Other Receivables under Follow-Up
1 or 2 times	547,437	1,006,339
3, 4 or 5 times	-	-
Over 5 times	-	-
Total	547,437	1,006,339

Extension Periods for Repayment Plan Changes	Performing Loans and Other Receivables	Loans and Other Receivables under Follow-Up
0 - 6 months	4,633	31,479
6 - 12 months	15,611	107,110
1 - 2 years	153,136	313,943
2 - 5 years	238,648	497,695
5 years and over	135,409	56,112
Total	547,437	1,006,339

Prior Period	Number of Extensions for Repayment Plan	
	Performing Loans and Other Receivables	Loans and Other Receivables under Follow-Up
1 or 2 times	347,322	715,135
3, 4 or 5 times	-	-
Over 5 times	-	-
Total	347,322	715,135

Extension Periods for Repayment Plan Changes	Performing Loans and Other Receivables	Loans and Other Receivables under Follow-Up
0 - 6 months	3,386	16,447
6 - 12 months	17,113	50,730
1 - 2 years	67,989	231,651
2 - 5 years	133,004	415,379
5 years and over	125,830	928
Total	347,322	715,135

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

3. Breakdown of loans and other receivables according to their maturities:

Current 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	6,725,075	7,459	66,125	40,937
Loans	6,707,159	7,459	63,076	40,937
Other receivables	17,916	-	3,049	-
Medium and long-term loans and other receivables (*)	19,655,927	539,978	471,685	965,402
Loans	19,655,927	539,978	471,685	965,402
Other receivables	-	-	-	-
Total	26,381,002	547,437	537,810	1,006,339

(*) Loans with have original maturities longer than a year are classified as "Medium and Long Term Loans".

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	6,533,399	13,522	81,700	25,134
Loans	6,514,335	13,522	77,615	25,134
Other receivables	19,064	-	4,085	-
Medium and long-term loans and other receivables (*)	17,763,861	333,800	421,716	690,001
Loans	17,763,861	333,800	421,716	690,001
Other receivables	-	-	-	-
Total	24,297,260	347,322	503,416	715,135

(*) Loans with have original maturities longer than a year are classified as "Medium and Long Term Loans".

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

4. Information on consumer loans, retail credit cards, loans given to personnel and personnel credit cards:

Current Period	Short term	Medium and long term	Total
Consumer Loans-TL	36,077	5,327,039	5,363,116
Housing Loans	8,603	4,832,622	4,841,225
Vehicle Loans	8,669	286,162	294,831
Consumer Loans	16,578	156,424	173,002
Other	2,227	51,831	54,058
Consumer Loans-FC Indexed	-	4,754	4,754
Housing Loans	-	4,754	4,754
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	16	162,231	162,247
Housing Loans	-	96,990	96,990
Vehicle Loans	16	5,298	5,314
Consumer Loans	-	13,065	13,065
Other	-	46,878	46,878
Retail Credit Cards-TL	179,305	79	179,384
With Installment	31,809	79	31,888
Without Installment	147,496	-	147,496
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	1,064	9,163	10,227
Housing Loans	-	1,396	1,396
Vehicle Loans	302	4,632	4,934
Consumer Loans	760	3,135	3,895
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	7,614	22	7,636
With Installment	2,256	22	2,278
Without Installment	5,358	-	5,358
Personnel Credit Cards-FC	-	-	-
Installment based	-	-	-
Without-installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total	224,076	5,503,288	5,727,364

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

4. Information on consumer loans, retail credit cards, loans given to personnel and personnel credit cards:
(continued)

Prior Period	Short term	Medium and long term	Total
Consumer Loans-TL	97,352	4,656,748	4,754,100
Housing Loans	2,681	4,371,412	4,374,093
Vehicle Loans	3,997	226,999	230,996
Consumer Loans	89,695	36,603	126,298
Other	979	21,734	22,713
Consumer Loans-FC Indexed	-	8,775	8,775
Housing Loans	-	8,775	8,775
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	193	113,354	113,547
Housing Loans	193	51,882	52,075
Vehicle Loans	-	18	18
Consumer Loans	-	-	-
Other	-	61,454	61,454
Retail Credit Cards-TL	140,945	821	141,766
With Installment	28,719	821	29,540
Without Installment	112,226	-	112,226
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	2,317	4,619	6,936
Housing Loans	3	1,579	1,582
Vehicle Loans	166	2,406	2,572
Consumer Loans	2,126	634	2,760
Other	22	-	22
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	6,693	40	6,733
With Installment	2,045	40	2,085
Without Installment	4,648	-	4,648
Personnel Credit Cards-FC	-	-	-
Installment based	-	-	-
Without-installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total	247,500	4,784,357	5,031,857

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

5. Information on commercial installment loans and corporate credit cards:

Current Period	Short term	Medium and long term	Total
Commercial Installment Loans-TL	131,542	3,350,939	3,482,481
Business Loans	8,363	805,525	813,888
Vehicle Loans	53,877	899,076	952,953
Consumer Loans	69,302	1,646,104	1,715,406
Other	-	234	234
Commercial Installment Loans-FC Indexed	19,738	1,600,468	1,620,206
Business Loans	518	361,055	361,573
Vehicle Loans	13,966	401,823	415,789
Consumer Loans	5,254	836,926	842,180
Other	-	664	664
Commercial Installment Loans-FC	44,004	279,574	323,578
Business Loans	-	144,340	144,340
Vehicle Loans	-	13,693	13,693
Consumer Loans	44,004	41,386	85,390
Other	-	80,155	80,155
Corporate Credit Cards-TL	141,588	-	141,588
With Installment	20,605	-	20,605
Without Installment	120,983	-	120,983
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	336,872	5,230,981	5,567,853
Prior Period	Short term	Medium and long term	Total
Commercial Installment Loans-TL	101,510	3,178,876	3,280,386
Business Loans	3,143	760,710	763,853
Vehicle Loans	55,812	772,597	828,409
Consumer Loans	42,303	1,633,848	1,676,151
Other	252	11,721	11,973
Commercial Installment Loans-FC Indexed	22,962	1,616,759	1,639,721
Business Loans	1,222	423,948	425,170
Vehicle Loans	4,632	347,961	352,593
Consumer Loans	7,829	765,312	773,141
Other	9,279	79,538	88,817
Commercial Installment Loans-FC	-	148,328	148,328
Business Loans	-	129,225	129,225
Vehicle Loans	-	16,169	16,169
Consumer Loans	-	-	-
Other	-	2,934	2,934
Corporate Credit Cards-TL	103,920	-	103,920
With Installment	14,186	-	14,186
Without Installment	89,734	-	89,734
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	228,392	4,943,963	5,172,355

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

6. Allocation of loans by customers:

	Current period	Prior period
Public	12,780	22,957
Private	28,459,808	25,840,176
Total	28,472,588	25,863,133

7. Breakdown of domestic and foreign loans:

	Current period	Prior period
Domestic loans	28,154,845	25,502,422
Foreign loans	317,743	360,711
Total	28,472,588	25,863,133

8. Loans granted to subsidiaries and associates:

	Current period	Prior period
Loans granted directly to subsidiaries and associates (*)	14	10
Loans granted indirectly to subsidiaries and associates	-	-
Total	14	10

(*) 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

9. Specific provisions for loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	71,172	67,565
Loans and receivables with doubtful collectability	211,227	104,178
Uncollectible loans and receivables	304,120	158,664
Total	586,519	330,407

10. Information on non-performing loans (net):

(i). 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	-	-	-
Rescheduled loans and other receivables	-	-	-
Prior period			
(Gross amounts before specific provision)	-	-	-
Restructured loans and other receivables	1,961	-	-
Rescheduled loans and other receivables	-	-	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

10. Information on non-performing loans (net) (continued):

(ii). Information on the movement of total non-performing loans:

Current Period	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Ending balance of prior period 31.12.2015	112,924	160,172	183,219
Additions in the current period (+)	97,221	198,428	184,411
Transfers from other categories of non-performing loans(+)	-	13,383	147,258
Transfers to other categories of non-performing loans (-)	76,844	83,793	4
Collections in the current period (-)	4,865	8,654	23,380
Write offs (-)	-	662	150,200
Corporate and commercial loans	-	570	94,281
Retail loans	-	65	51,537
Credit Cards	-	27	4,382
Other	-	-	-
Ending balance of the current period	128,436	278,874	341,304
Specific provisions (-)	71,172	211,227	304,120
Net balance at the balance sheet	57,264	67,647	37,184

(iii). Information on non-performing loans granted as foreign currency: None (31 December 2015 – None).

Current Period	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Period End Balance	-	-	552
(Specific Provision)	-	-	(796)
Prior Period			
Period End Balance	-	-	13,796
(Specific Provision)	-	-	(12,347)

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

(iv). Gross and net amounts of non-performing loans with respect to user group

	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)	57,264	67,647	37,184
Loans granted to real persons and legal entities (Gross)	128,436	278,874	341,304
Specific provision (-)	71,172	211,227	304,120
Loans to real persons and legal entities (Net)	57,264	67,647	37,184
Banks (Gross)	-	-	-
Specific provision (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	-	-	-
Specific provision (-)	-	-	-
Other loans and receivables (Net)	-	-	-
Prior period (Net)	45,359	55,994	24,555
Loans to real persons and legal entities (Gross)	112,924	160,172	183,219
Specific provision (-)	67,565	104,178	158,664
Loans to real persons and legal entities (Net)	45,359	55,994	24,555
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.

(v). 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	904,414	276,634	177,537	-	1,358,585
Retail loans	33,502	90,083	53,342	-	176,927
Credit cards	4,416	2,743	1,478	-	8,637
Total	942,332	369,460	232,357	-	1,544,149

Prior Period	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and receivables					
Corporate loans	695,566	204,218	178,290	-	1,078,074
Retail loans	26,109	69,528	38,873	-	134,510
Credit cards	4,337	1,154	476	-	5,967
Total	726,012	274,900	217,639	-	1,218,551

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

e. Information on loans (Continued):

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 2016, non-performing loans amounting to TL 150,682 have been written-off (31 December 2015 – TL 333,185).

12. Information on the write-off policy:

The Group’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.

f. Information on held-to-maturity investments (Net):

None (31 December 2015 – None).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued)

g. Information on investment in associates (Net):

- The 1.69% ownership of Kredi Garanti Fonu A.Ş. of TL 4,719 (31 December 2015 – TL 4,210), 8.36% ownership of Islamic International Rating Agency of TL 714 (31 December 2015 – TL 714), and 6.99% ownership of Neova Sigorta A.Ş. of TL 5,201 (31 December 2015 – TL 4,956), TL 390 amount of swift shares (31 December 2015 – TL 390) and 0.0035% ownership of share of TL 15 (31 December 2015 – TL 15) that is traded in Borsa İstanbul A.Ş. and VISA Inc.share of TL 6,660 (31 December 2015 – TL 0) 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.
- Information about investments in unconsolidated associates: None (31 December 2015 – None).
- Information related to consolidated associates: None (31 December 2015 – None).

h. Information on investment in associates (Net):

- 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. ve Architech Bilişim Sistemleri ve Pazarlama Tic A.Ş." have 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.
- Information on subsidiaries:

Title	Address (City/ Country)	Bank's share percentage, if different-voting Percentage (%)	Bank's risk group share Percentage (%)
Kuwait Turkish Participation Bank Dubai Ltd. (*)	Dubai/United Arab Emirates	100%	100%
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%
KT Portföy Yönetimi A.Ş. (***)	İstanbul/Turkey	100%	100%
Architech Bilişim Sistemleri ve Pazarlama Tic A.Ş. (**)	İstanbul/Turkey	100%	100%
KT Sukuk Company Limited (***)	George Town/ Cayman Islands	-	-

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
210,614	175,960	-	32,165	-	6,448	(296)	-
29,345	29,282	-	-	-	6,946	633	-
120,883	79,585	-	-	-	30,935	(439)	-
160	154	-	-	-	11	35	-
4,763,885	94	-	-	-	5	44	-
400,190	222,594	-	-	-	(41,161)	(36,770)	-
2,710	5,000	-	-	-	(1,587)	(1)	-
3,202	2,671	-	-	-	1,674	-	-
1,268	-	-	-	-	-	-	-

(*) As of 31 December 2016, 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 2016.

(***) 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 IFRS 10, it is described as a subsidiary.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued):

h. Information on investment in associates (Net) (Continued):

Movement for subsidiaries

	Current period	Prior period
Balance at the beginning of the year	22,930	22,680
Movements during the year	-	-
Purchases (*)	750	250
Transfers from subsidiaries	-	-
Bonus shares	-	-
Dividends from current year income	-	-
Sales	-	-
Revaluation increase	-	-
(Impairment)/reversal of impairment	-	-
Capital commitment payments	-	-
Balance at the end of the year	23,680	22,930
Capital commitments	-	-
Share percentage at the end of the year (%)	-	-

(*) Purchase is the capital payments to Architech Bilşim Sistemleri amounting to TL 750.

3. Information on capital adequacies of major subsidiaries:

Title	Address (City/ Country)	Bank's share percentage, if different-voting Percentage (%)	Bank's risk group share Percentage (%)
Kuveyt Türk Katılım Bankası Dubai LTD (*)	Dubai/United Arab Emirates	% 100.00	% 100.00
KT Sukuk Varlık Kiralama A.Ş.	Istanbul/Turkey	% 100.00	% 100.00
KT Kira Sertifikaları Varlık Kiralama A.Ş.	Istanbul/Turkey	% 100.00	% 100.00
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	% 75.00	% 97.61
KT Bank AG (*)	Frankfurt/Germany	% 100.00	% 100.00
KT Portföy Yönetimi A.Ş.	Istanbul/Turkey	% 100.00	% 100.00
KT Sukuk Company Limited (**)	GeorgeTown/ Cayman Islands	-	-

(*) Financial figures as of 31 December 2016 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.

(**) The special purpose entity, Kuveyt Turk Sukuk is not a subsidiary of the Parent Bank. Since the Bank has 100% control power on the subsidiary it is included in the scope of consolidation.

Sectoral information on consolidated subsidiaries and the related carrying amounts:

	Current period	Prior period
Banks	270,560	221,109
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Subsidiaries	50,273	50,273

Subsidiaries that are quoted on the stock exchange: None.(31 December 2015- None).

4. Information on capital adequacies of major subsidiaries:

The Bank does not have any major subsidiary.

5. Accounting methods and reasons of unconsolidated subsidiaries:

Subsidiaries which are not subject to consolidation are accounted at cost.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued):

i. 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	687,002	28,219	1,582	4,846	(4,454)

(*) As of 31 December 2016, financial figures for this entity in the table above are based on the financial information prepared in accordance with the local regulations.

(**) 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. 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.

j. Information on finance lease receivables (Net):

1. Presentation of remaining maturities of net finance leases:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	1,119,851	958,746	1,008,185	850,194
1 to 4 years	493,529	461,817	305,026	285,153
More than 4 years	131,810	123,980	49,789	47,513
Total	1,745,190	1,544,543	1,363,000	1,182,860

2. Net investments in finance leases:

	Current period	Prior period
Gross receivable from finance leases	1,745,189	1,363,000
Unearned finance lease income (-)	(200,647)	(180,140)
Cancelled amounts (-)	-	-
Net receivable from finance leases	1,544,543	1,182,860

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, 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 13,086 are included in the non-performing loans in the balance sheet (31 December 2015– TL 3,506).

Impairment provision amounting to TL 12,126 (31 December 2015– TL 2,941) for financial lease receivables are included under the specific provision account under loans in the balance sheet.

k. Information on derivative financial assets for hedging purposes: None (31 December 2015 – None).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued):

I. Explanations on Tangible Assets (Net)

	Buildings	Leased Tangible Assets	Vehicles	Other Tangible Assets(*)	Total
At End of Prior Period: 31 December 2015					
Cost	168,989	79,667	1,123	421,114	670,893
Accumulated Depreciation (-)	12,060	17,615	907	178,669	209,251
Net Book Value	156,929	62,052	216	242,445	461,642
At End of Current Period: 31 December 2016					
Net book value at beginning of period	156,929	62,052	216	242,445	461,642
Additions	2,110	365	50	44,353	46,878
Disposals (-)	7,471	-	-	3,036	10,507
Transfers to assets held for sale (-)	-	-	-	-	-
Transfer from assets held for sale	-	-	-	-	-
Impairment/Reversal of Impairment Losses (**)	-	-	-	-	-
Depreciation Expense (-)	7,499	739	37	44,566	52,841
Cost at period end	163,628	80,032	1,173	462,431	707,264
Accumulated depreciation end of period (-)	19,559	18,354	944	223,235	262,092
Closing net book value	144,069	61,678	229	239,196	445,172
At End of Prior Period: 31 December 2014					
Cost	165,057	78,447	1,075	322,693	567,272
Accumulated Depreciation (-)	7,031	14,133	870	143,518	165,552
Net Book Value	158,026	64,314	205	179,175	401,720
At End of Current Period: 31 December 2015					
Net book value at beginning of period	158,026	64,314	205	179,175	401,720
Additions	11,745	1,220	48	90,323	103,336
Disposals (-)	7,813	-	-	4,288	12,101
Transfers to assets held for sale (-)	-	-	-	-	-
Transfer from assets held for sale	-	-	-	12,386	12,386
Impairment/Reversal of Impairment Losses (**)	-	-	-	-	-
Depreciation Expense (-)	5,029	3,482	37	35,151	43,699
Cost at period end	168,989	79,667	1,123	421,114	670,893
Accumulated depreciation end of period (-)	12,060	17,615	907	178,669	209,251
Closing net book value	156,929	62,052	216	242,445	461,642

(*) TL 30,128 (31 December 2015-TL 36,872) includes the amount of real estates to be disposed off.

m. Explanations on Intangible Assets:

1. Cost and accumulated amortization balances at beginning and end of period:

	Current Period	Prior Period
Cost	237,034	193,432
Accumulated Amortization	(96,568)	(74,092)
Total (net)	140,466	119,340

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued):

m. Explanations on Intangible Assets (Continued):

2. Movements of intangible assets

	Current Period	Prior Period
Opening balance	119,340	70,280
Additions	56,425	86,933
Disposals (-), net	8,414	8,153
Depreciation amount (-)	26,885	29,720
Closing net book value	140,466	119,340

Intangible assets include computer software and program licenses which are taken for banking systems.

n. Investment property:

None. (31 December 2015 – None)

o. Information on deferred tax asset:

In accordance with the related regulations deferred tax asset calculated as of 31 December 2016 is TL 130,520 (31 December 2015 – TL 117,108) and deferred tax liability is TL 12,409 (31 December 2015 – TL 9,958).

	Current period	Prior period
Reserve for employee benefits	14,755	11,646
Retirement pay liability	11,092	9,642
Deferred income	29,683	27,131
Rediscounts for derivative instruments held for trading	27,731	21,827
Impairment provision for subsidiaries, fixed assets and assets held for sale	36,425	26,223
Precious metals valuation difference	-	14,440
Other	10,834	6,199
Deferred tax asset	130,520	117,108
Difference between carrying value and tax base of tangible assets	(7,754)	(6,852)
Valuation difference on available for sale financial asset	(220)	(482)
Valuation difference on precious metal	(3,131)	-
Other	(1,304)	(2,624)
Deferred tax liability	(12,409)	(9,958)
Deferred tax asset, (net)	118,111	107,150

Table for deferred tax asset movement:

	Current period	Prior period
As of January 1	107,150	50,016
Deferred tax (expense) /income	(7,517)	45,687
Deferred tax accounted under shareholders' equity	18,478	11,447
Deferred tax asset	118,111	107,150

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I. Explanations and notes related to assets (Continued):

p. Assets held for sale and assets of discontinued operations

Tangible assets which are obtained through receivables of the Bank and which the Bank plans to sell within one year and that have been announced in the web site are valued with the lower of the cost less accumulated net book value and fair value as is required by the Communiqué of “Principles and Procedures on Bank’s Disposal of Precious Metals and Asset Held For Sale” published on 1 November 2006 in the Official Gazette No. 26333 in the consolidated financial statements.

	Current Period	Prior Period
Opening balance	32,640	31,316
Additions	15,335	13,956
Transfer from tangible assets	-	-
Disposals (-), net	-	246
Transfer to tangible assets	-	12,386
Depreciation amount (-)	-	-
Impairment losses provision (-)	-	-
Closing net book value	47,975	32,640

r. Information on other assets:

As of balance sheet date, the Group’s other assets amount to TL 735,464 (31 Aralık 2015 – TL 485,172). Other assets balance does not exceed 2% of the total assets on the balance sheet excluding off balance sheet commitments.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION FIVE

II. Explanations and notes related to liabilities

a. Information on funds collected:

1. Information on maturity structure of funds collected:

i. 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	3,573,258	-	-	-	-	-	-	-	3,573,258
II. Real persons profit sharing accounts TL	-	3,455,975	6,185,646	481,322	-	227,354	160,993	-	10,511,290
III. Other current accounts-TL	2,350,257	-	-	-	-	-	-	-	2,350,257
Public sector	57,536	-	-	-	-	-	-	-	57,536
Commercial sector	2,260,763	-	-	-	-	-	-	-	2,260,763
Other institutions	27,325	-	-	-	-	-	-	-	27,325
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	4,633	-	-	-	-	-	-	-	4,633
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	741	-	-	-	-	-	-	-	741
Foreign banks	3,090	-	-	-	-	-	-	-	3,090
Participation banks	802	-	-	-	-	-	-	-	802
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	349,795	821,092	44,001	-	132,379	135,889	-	1,483,156
Public sector	-	301	33,481	-	-	40	-	-	33,822
Commercial sector	-	321,734	738,429	32,343	-	126,604	135,150	-	1,354,260
Other institutions	-	27,021	48,987	11,658	-	5,725	401	-	93,792
Commercial and other institutions	-	739	182	-	-	10	-	-	931
Banks and participation banks	-	-	13	-	-	-	338	-	351
V. Real persons current accounts-FC	3,090,964	-	-	-	-	-	-	-	3,090,964
VI. Real persons profit sharing accounts-FC	-	1,625,988	2,820,800	651,610	-	454,239	164,990	-	5,717,627
VII. Other current accounts-FC	1,718,839	-	-	-	-	-	-	-	1,718,839
Commercial residents in Turkey	1,341,943	-	-	-	-	-	-	-	1,341,943
Commercial residents in Abroad	277,192	-	-	-	-	-	-	-	277,192
Banks and participation banks	99,704	-	-	-	-	-	-	-	99,704
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	7,665	-	-	-	-	-	-	-	7,665
Foreign banks	89,721	-	-	-	-	-	-	-	89,721
Participation banks	2,318	-	-	-	-	-	-	-	2,318
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts- FC	-	378,656	649,008	93,215	-	63,706	40,797	-	1,225,382
Public sector	-	-	80	-	-	-	-	-	80
Commercial sector	-	286,537	559,916	80,034	-	57,366	29,608	-	1,013,461
Other institutions	-	59,622	37,781	28	-	741	-	-	98,172
Commercial and other institutions	-	28,971	47,051	13,153	-	5,599	11,103	-	105,877
Banks and participation banks	-	3,526	4,180	-	-	-	86	-	7,792
IX. Precious metal funds	1,299,314	-	930,175	73,925	-	36,607	-	-	2,340,021
X. Profit sharing accounts special funds - TL	-	-	-	-	-	-	2,184	-	2,184
Residents in Turkey	-	-	-	-	-	-	2,184	-	2,184
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit sharing accounts special funds - FC	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total	12,032,632	5,810,414	11,406,721	1,344,073	-	914,285	504,853	-	32,012,978

There are no 7 day notification and accumulative deposit accounts of the Bank.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

a. Information on funds collected (Continued):

1. Information on maturity structure of funds collected (Continued):

ii. 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	2,647,535	-	-	-	-	-	-	-	2,647,535
II. Real persons profit sharing accounts-TL	-	2,725,707	4,697,143	545,322	-	212,632	218,604	-	8,399,408
III. Other current accounts-TL	1,914,837	-	-	-	-	-	-	-	1,914,837
Public sector	66,484	-	-	-	-	-	-	-	66,484
Commercial sector	1,814,603	-	-	-	-	-	-	-	1,814,603
Other institutions	24,319	-	-	-	-	-	-	-	24,319
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	9,431	-	-	-	-	-	-	-	9,431
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	1,202	-	-	-	-	-	-	-	1,202
Foreign banks	4,831	-	-	-	-	-	-	-	4,831
Participation banks	398	-	-	-	-	-	-	-	398
Others	3,000	-	-	-	-	-	-	-	3,000
IV. Profit sharing accounts-TL	-	285,158	1,016,935	50,342	-	107,013	78,509	-	1,537,957
Public sector	-	43	22,580	5,000	-	19	-	-	27,642
Commercial sector	-	261,501	941,747	38,593	-	103,772	78,126	-	1,423,739
Other institutions	-	23,614	50,911	6,749	-	3,222	383	-	84,879
Commercial and other institutions	-	-	1,685	-	-	-	-	-	1,685
Banks and participation banks	-	-	12	-	-	-	-	-	12
V. Real persons current accounts-FC	2,802,853	-	-	-	-	-	-	-	2,802,853
VI. Real persons profit sharing accounts-FC	-	1,647,358	3,055,045	607,343	-	393,923	169,584	-	5,873,253
VII. Other current accounts-FC	1,337,905	-	-	-	-	-	-	-	1,337,905
Commercial residents in Turkey	1,169,549	-	-	-	-	-	-	-	1,169,549
Commercial residents in Abroad	141,076	-	-	-	-	-	-	-	141,076
Banks and participation banks	27,280	-	-	-	-	-	-	-	27,280
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	4,215	-	-	-	-	-	-	-	4,215
Foreign banks	21,767	-	-	-	-	-	-	-	21,767
Participation banks	1,298	-	-	-	-	-	-	-	1,298
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts- FC	-	312,332	1,514,105	67,155	-	69,741	294,886	-	2,258,219
Public sector	-	-	15	-	-	-	-	-	15
Commercial sector	-	213,720	1,414,812	47,301	-	52,321	254,832	-	1,982,986
Other institutions	-	72,423	56,230	348	-	353	-	-	129,354
Commercial and other institutions	-	26,189	39,467	19,506	-	17,006	-	-	102,168
Banks and participation banks	-	-	3,581	-	-	61	40,054	-	43,696
IX. Precious metal funds	585,999	-	679,839	47,987	-	32,316	-	-	1,346,141
X. Profit sharing accounts special funds - TL	-	-	-	-	-	-	7,192	-	7,192
Residents in Turkey	-	-	-	-	-	-	7,192	-	7,192
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit sharing accounts special funds - FC	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total	9,289,129	4,970,555	10,963,067	1,318,149	-	815,625	768,775	-	28,125,300

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

a. Information on funds collected (Continued):

2. Information's on current and profit share accounts that are in the scope of Saving Deposit/Saving Deposit Insurance Fund:

i. 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	Prior period	Current period	Prior period
Real persons current and profit sharing accounts that are not subject to commercial activities				
TL accounts	8,985,542	7,234,693	5,052,687	3,775,703
FC accounts	4,058,175	4,001,565	6,504,045	5,831,455
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.

i. 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.

iii. 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	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	3,046	2,887
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	355	291

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

b. Information on derivative financial liabilities held for trading:

Derivative financial liabilities held for trading:

	Current period		Prior period	
	TL	FC	TL	FC
Forward transactions	15,459	1,294	9,669	4,070
Swap transactions	25,121	77,853	293	57,491
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	40,580	79,147	9,962	61,561

c. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current period		Prior period	
	TL	FC	TL	FC
Loans from The Central Bank of the Republic of Turkey	-	-	-	-
From Domestic Banks and Institutions	73	281,737	10,490	155,108
From Foreign Banks, Institutions and Funds	59,007	2,933,925	55,208	4,040,837
Total	59,080	3,215,662	65,698	4,195,945

2. Information on maturity structure of borrowings:

	Current period		Prior period	
	TL	FC	TL	FC
Short-term	48,852	3,059,071	65,698	4,059,263
Medium and Long-Term	10,228	156,591	-	136,682
Total	59,080	3,215,662	65,698	4,195,945

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

c. Information on funds borrowed (Continued):

Details of significant transactions that are accounted under Funds Borrowed are stated in table below.

Current Period:

Type	Customer	Opening Date	Maturity	Currency	Rate (Yearly)	Principal	Profit Share
Wakala	PUBLIC INSTITUTE FOR SOCIAL SECURITIES KW	27/10/2016	27/01/2017	USD	2.20%	100,000,000	562,222
Wakala	KFH - KUWAIT	04/11/2016	06/02/2017	USD	2.20%	100,000,000	574,444
Wakala	PUBLIC INSTITUTE FOR SOCIAL SECURITIES KW	27/05/2016	02/06/2017	USD	1.90%	120,000,000	2,349,667
Wakala	KFH - KUWAIT	21/06/2016	27/06/2017	USD	2.05%	100,000,000	2,112,639
Wakala	KFH - KUWAIT	31/10/2016	07/11/2017	USD	2.15%	101,666,667	2,258,694

Prior Period:

Type	Customer	Opening Date	Maturity	Currency	Rate (Yearly)	Principal	Profit Share
Sydication	EMIRATES NBD BANK PJSC (HEAD OFFICE) – DUBAI	29/12/2014	29/12/2016	EUR	1.08%	30,000,000	657,291
Sydication	EMIRATES NBD BANK PJSC (HEAD OFFICE) – DUBAI	29/12/2014	29/12/2016	USD	1.25%	300,000,000	7,642,605

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.

There is no risk concentration of the Bank's current and profit sharing accounts

c. Information on issued securities

The Group issued sukuks as below. The yield rates for issued securities are 9% for Turkish Lira and 5% for USD on average and for 6% Malasian Ringgit . The maturity range of issued securities in TRY is January 2017 – April 2018 and securities (sukuk) in USD is June 2019-November 2021 and securities (sukuk) in Malasian Ringgit is March 2020-July 2020.

Current Period	TL		FC	
	Short Term Maturity	Mid-Long Term Maturity	Short Term Maturity	Mid-Long Term Maturity
Nominal	561,657	10,000	-	4,147,352
Distributed Yields	15,203	-	-	818,891
Book Value	570,343	10,228	-	4,174,842

Prior Period	TL		FC	
	Short Term Maturity	Mid-Long Term Maturity	Short Term Maturity	Mid-Long Term Maturity
Nominal	589,224	-	-	3,013,900
Distributed Yields	26,296	-	-	468,721
Book Value	602,602	-	-	3,033,517

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

e. Information on other liabilities and miscellaneous payables:

As of 31 December 2016, other liabilities amounting TL 439,785 (31 Aralık 2015 – TL 456,852), sundry creditors amounting to TL 169,149 (31 Aralık 2015 – TL 126,289), both of them do not exceed 10% of the balance sheet total.

f. 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.

As of 31 December 2016, finance lease payables details of the transaction of issuing certificate of rent (sukuk) is explained under section three and disclosure XVIII, with the permission of BRSA's decision numbered B.02.1.BDK.0.06.00.00-045.01(3/8)-5397 and as of 13 March 2012, it is accounted as sale and leaseback transaction in accordance with TAS 17.

i. Information on the changes in agreements and new obligations originating from these changes: None (31 December 2015 – None).

ii. Information on Financial Lease Obligations

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	265	226	145	131
Between 1-4 years	-	-	-	-
More than 4 years	-	-	-	-
Total	265	226	145	131

iii. 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.

iv. Information on sale and leaseback transactions:

The transaction of issuing certificate of rent (sukuk) is explained under section three and disclosure XVIII, with the permission of the decision of BRSA numbered B.02.1.BDK.0.06.00.00-045.01(3/8)-5397 and dated as 13 March 2012, it is accounted as sale and leaseback transaction in accordance with TAS 17.

f. Information on hedging derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge	-	-	-	-
Cash flow hedge	-	137,829	-	98,650
Hedge of net investment in foreign operations	-	-	-	-
Total	-	137,829	-	98,650

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

h. Information on provisions:

1. Information on general provisions:

	Current period	Prior Period
General Provisions	318,825	334,118
I.For Loans and Receivables in Group I (Total)	238,477	242,204
Profit Sharing Accounts' Share	85,063	70,988
The Bank's Share	153,414	158,152
Other	-	-
I.Additional Provision for Loans and Receivables with Extended Maturities	-	13,064
Profit Sharing Accounts' Share	-	3,482
The Bank's Share	-	9,582
Other	-	-
II.Loans and Receivables in Group II (Total)	31,063	45,256
Profit Sharing Accounts' Share	13,639	584
The Bank's Share	17,424	10,692
Other	-	-
II.Additional Provision for Loans and Receivables with Extended Maturities	-	33,980
Profit Sharing Accounts' Share	-	17,298
The Bank's Share	-	16,682
Other	-	-
Provisions for Non Cash Loans	21,629	19,363
Other	27,656	27,295

According to the provisional article 11 added on 14 December 2016 to "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside" that is published in Official Gazette numbered 26333 on 1 November 2006; it has been stated that the banks can apply the rates disclosed in paragraph 1, article 7 of the related regulation for general provisions as minimum five over thousand percent (0.5%) for commercial cash loans in Group I; minimum one over thousand percent (0.1%) for commercial non-cash loans in Group I; zero percent (0 %) for the small and medium-sized enterprise cash and non-cash loans in Group I, cash and non-cash loans used for the purpose of transit trade, exports, sales and deliveries considered as exports and foreign exchange earning services and activities, and the syndication loans used for the financing of large-scale public tenders; minimum one percent (1 %) for the small and medium-sized enterprise cash loans in Group II, cash loans used for the purpose of transit trade, exports, sales and deliveries considered as exports and foreign exchange earning services and activities; two over thousand percent (0.2%) for the non-cash loans with the same nature in Group II. These exceptional clauses were partially applied in the current period financial statements.

2. Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans: As of 31 December 2016, effect of decrease in exchange rates on foreign currency indexed loans amounting to TL 651 (31 Aralık 2015 – TL 28,352) and TL 5,953 (31 Aralık 2015 – TL 37,431) is offset against loans and receivables.

3. Information on other provisions:

	Current Period	Prior Period
Provisions for non- liquidated non cash loans (*)	74,736	66,746
Provisions for cheque books (*)	4,633	8,768
Provisions from equity/profit sharing accounts	14,668	7,564
Provisions for Promotion Activities for Credit Cards	818	551
Other (**)	40,086	7,988
Total	134,941	91,617

(*) Effective from 1 March 2011, according to temporary article 2 of "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside", the Bank recognizes provisions for non- liquidated non-cash loans and check books of customers who have any other non-performing exposures within the Bank.

(**) Other item includes TL 4,050 litigation provision in current period (31 December 2015 – TL 4,450). In addition to this, TL 14,550 includes provision amount which is related to a penalty from Ministry of Customs and Trade (31 December 2015 – TL 0) and TL 18,550 includes the repayment amount foreseen for delay in penalties (31 December 2015 – TL 0).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

h. Information on provisions (Continued):

4. Information on provisions for employee benefits:

Provisions for employee benefits consist of reserve for employee termination benefits amounting to, TL 55,465 (31 Aralık 2015 – TL 48,639), vacation pay liability amounting to TL 792 (31 Aralık 2015 – TL 355), performance premium amounting TL 55,927 (31 Aralık 2015 – TL 49,677), retirement bonuses on payment of TL 10,340 (31 December 2015 – TL 3,360) and committee fee amounting to 6,714 TL (31 December 2015 – TL 4,840).

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.

The amount payable consists of one month's salary limited to a maximum of TL 4,297 (31 Aralık 2015 – TL 4,093) 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	Prior period
Discount Rate (%)	11.46	10.83
Inflation rate (%)	7.78	7.40
Interest rate (%)	8.78	8.40

Movements in the reserve for employment termination benefits during period are as follows:

	Current period	Prior period
Balance at the beginning of the period	48,639	42,212
Provisions provided during the period	16,159	13,198
Paid during the period	(7,880)	(3,620)
Actuarial loss	(1,454)	(3,151)
Balances at the end of the period	55,464	48,639

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

i. Explanations on tax liability:

1. Explanations on current tax liability:

i. Information on tax provisions: As of 31 December 2016, the Bank has current tax liability after deducting temporary taxes paid during the period from the provision for corporate income tax amounting to TL 27,842.

	Current period	Prior period
Provision for corporate income tax (*)	124,960	159,534
Prepaid taxes	(96,988)	(123,057)
Total (*)	27,842	36,477

(*) It is presented in the current tax liability line, under liabilities.

1. Explanations on current tax liability (Continued):

ii. Information on taxes payable (*):

	Current period	Prior period
Taxation of marketable securities	14,130	10,502
Taxation of immovable property	1,111	997
Banking Insurance Transaction Tax (BITT)	17,170	13,200
Value added tax payable	1,324	1,020
Income tax deducted from wages	7,331	6,488
Other	1,065	1,001
Total	42,131	33,208

(*) Included in sundry creditors line item on the balance sheet.

iii. Information on premiums (*):

	Current period	Prior period
Social Security Premiums-Employee	4,287	3,636
Social Security Premiums-Employer	4,622	3,913
Unemployment insurance-Employee	307	260
Unemployment insurance-Employer	698	573
Total	9,914	8,382

(*) Included in sundry creditors line item on the balance sheet.

iv. Information on deferred tax liability: None (31 December 2015 - None).

j. **Information on payables related to assets held for sale:** None (31 December 2015 – None).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

k. Information on subordinated loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Banks	-	-	-	-
From Other Domestic Institutions	-	-	-	-
From Foreign Banks	-	1,981,646	-	589,734
From Other Foreign Institutions	-	-	-	-
Total	-	1,981,646	-	589,734

The Bank obtained a subordinated loan with 10-years maturity, amounting to USD 200 million, from Kuwait Finance House on 29 September 2011. Profit share amount will be calculated as the purchase price multiplied by a profit return rate equal to the applicable margin in the Murabaha period. Classification of this subordinated loan as tier-II capital upon the receipt of the cash amounting to USD 200 million by the Bank for the purpose of supplementary capital calculation was confirmed by the BRSA by their notification dated 30 September 2011. In order to comply with the amendments made in the Regulation on Equities of the Banks published by BRSA became effective on 31 March 2016, the related loan agreement was amended as of 29 March 2016 and it was deemed appropriate for the loan to be considered as tier-II capital in accordance with BRSA notification dated 25 April 2016.

Kuwait Turkish Participation Bank, on February 17, 2016 Cayman Islands' as resident Special Purpose Vehicle (SPV) KT Sukuk Company Limited with over 350 million US dollars worth of sukuk issued by the BRSA by the issue in the Regulation on the Capital Adequacy requirements having a contribution, it has provided capital loans. BRSA dated 2 September 2015 and 20008792101.01[93]E.12819 Letter of Conformity No included in the loan be included in the calculation of capital contribution to the Bank / sukuk annual rate of return is 7.90%, 5 year maturity and repayment option at the end of the Bank 10 it is determined as years. Sukuk returns under the said payment, the implementation of the transfer price of the assets, expressed as a yearly rate of return will be calculated by and principal will be made in two equal installments on July 17 and February 17 each year.

l. Information on shareholders' equity:

1. Presentation of paid-in capital:

	Current period	Prior period
Common shares	2,790,000	2,530,000
Preference shares	-	-
Repurchased shares amount (*)	(2,678)	(2,678)
Total	2,787,322	2,527,322

(*) 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. 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.

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
5 April 2016	260,000	260,000	-

4. Information on share capital increases from capital reserves during the current period: None. (31 December 2015 – None)

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

II. Explanations and notes related to liabilities (Continued)

I. Information on shareholders' equity (Continued):

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 Group's prior and current period indicators related to net profit share and commission income, it is observed that the Bank continues its operations profitably.

6. Summary of privileges given to shares representing the capital: None.
 7. Information on marketable securities value increase fund:

	Current period		Prior period	
	TL	FC	TL	FC
From Associates, Subsidiaries and Entities Under Common Control (Joint Vent.)	-	-	-	-
Valuation Difference (*)	(4,933)	(30,347)	9,225	(3,831)
Foreign Exchange Difference	-	-	-	-
Total	(4,933)	(30,347)	9,225	(3,831)

(*)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.

- m. **Information on minority shares:** TL 19,993 (31 December 2015- TL 12,258).

III. Explanations and notes related to off-balance sheet commitments

a. Explanations on off-balance sheet accounts:

1. Type and amount of irrevocable commitments: Commitment for credit card limits, as of 31 December 2016 is TL 904,427 (31 December 2015 – TL 739,721); payment commitments for cheque books are TL 1,178,750 (31 December 2015 – TL 1,018,655)
2. Type and amount of probable losses and obligations arising from off-balance sheet items:
- i. 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 2016, the Group has guarantees and suretyships constituting TL 8,116,025 (31 December 2015 – TL 7,340,216) letters of guarantee; TL 52,044 (31 December 2015 - TL 84,108) acceptances and TL 1,019,786 (31 December 2015 – TL 1,029,264) letters of credit. In addition, the Bank has also Other Guarantees and Securities amounting to TL 701,362 (31 December 2015 – TL 503,290)
- ii. Revocable, irrevocable guarantees and other similar commitments and contingencies: There are no other than those explained in 2.i).
3. (i). Total amount of non-cash loans:

	Current period	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	9,889,217	8,956,878
Total	9,889,217	8,956,878

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. Explanations and notes related to off-balance sheet commitments (Continued)

a. Explanations on off-balance sheet accounts (Continued):

(ii). Sectorial risk concentration of non-cash loans

	Current period				Prior period			
	TL	(%)	TL	(%)	TL	(%)	TL	(%)
Agriculture	39,728	0.76	10,773	0.23	29,503	0.63	30,804	0.71
Farming and Stockbreeding	17,721	0.34	7,487	0.16	12,707	0.27	11,025	0.26
Forestry	21,925	0.42	3,286	0.07	16,714	0.36	19,497	0.45
Fishery	82	0.00	-	-	82	0.00	282	0.01
Manufacturing	753,859	14.56	927,124	19.68	750,567	16.19	893,190	20.68
Mining and quarrying	213,839	4.13	294,194	6.24	179,242	3.87	279,187	6.46
Production	335,303	6.48	357,625	7.59	346,077	7.46	333,253	7.72
Electricity, Gas, Water	204,717	3.95	275,305	5.84	225,248	4.86	280,750	6.50
Construction	2,277,316	43.99	1,171,081	24.85	2,031,713	43.81	1,174,744	27.20
Services	1,426,827	27.56	1,656,399	35.15	1,265,473	27.29	1,435,932	33.24
Wholesale and Retail Trade	599,580	11.58	449,934	9.55	509,495	10.99	406,579	9.41
Hotel, Food and Beverage								
Services	70,677	1.37	31,106	0.66	54,590	1.18	32,191	0.75
Transportation and Telecom.	389,561	7.52	700,476	14.87	365,675	7.89	597,765	13.84
Financial Institutions	23,491	0.45	398,649	8.46	6,461	0.14	321,613	7.45
Real Estate and Renting Services	18,035	0.35	1,874	0.04	14,230	0.31	5,094	0.12
"Self-Employment" Type Services	70	0.00	-	-	130	0.00	-	-
Educational Services	41,418	0.80	1,994	0.04	27,509	0.59	3,882	0.09
Health and Social Services	283,995	5.49	72,366	1.54	287,383	6.20	68,808	1.59
Other	679,452	13.12	946,658	20.09	560,138	12.08	784,814	18.17
Total	5,177,182	100.00	4,712,035	100.00	4,637,394	100.00	4,319,484	100.00

(iii). Non-cash loans classified under Group I and II:

Current Period	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	5,122,017	4,688,003	55,165	24,032
Letters of Guarantee	4,971,330	3,070,172	55,165	19,358
Bills of Exchange and Bank Acceptances	2,071	49,973	-	-
Letters of Credit	188	1,014,924	-	4,674
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Sureties	148,428	553,684	-	-
Prior Period	TL	FC	TL	FC
Non-Cash Loans	4,551,524	4,284,304	85,870	35,180
Letters of Guarantee	4,521,699	2,698,924	85,870	33,723
Bills of Exchange and Bank Acceptances	7,656	76,004	-	448
Letters of Credit	177	1,028,078	-	1,009
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Sureties	21,992	481,298	-	-

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

III. Explanations and notes related to off-balance sheet commitments (Continued)

b. Financial derivative instruments

	Derivative transactions according to aims	
	Current Period	Prior Period
Trading derivatives		
Foreign Currency Related Derivative Transactions (I):		
Currency Forwards-Purchases, sales	18,635,729	12,438,945
Currency Swaps-Purchases, sales	3,408,604	3,166,827
Currency Futures	15,227,125	9,272,118
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)		
	21,178	104,764
A.Total Trading Derivatives (I+II+III)	18,656,907	12,543,709
Hedging Derivatives		
Fair value hedges	-	-
Cash flow hedges	1,391,124	1,172,816
Foreign currency investment hedges	-	-
B. Total Hedging Derivatives	1,391,124	1,172,816
Total Derivatives Transactions (A+B)	20,048,031	13,716,525

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 2016, the Bank has commitments to buy TL 4,827,866, USD 1,053,129,000, EUR 79,150,000, GBP 976,000 and MYR 800,000,000 in return of selling commitments of TL 904,538, USD 570,101,074, EUR 1,796,912,000 and GBP 700,000 (As of 31 December 2015, the Bank has commitments to buy TL 1,402,158, USD 1,387,161,000, EUR 121,900,000, GBP 3,005,000 and 800,000,000 MYR in return of selling commitments of TL 588,724, USD 824,214,000, EUR 945,395,000 and GBP 1,986,000)

c. Credit derivatives and risk exposures on credit derivatives: None.

d. 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.

e. Explanations on custodian and intermediary services

The Bank does not operate in money placements on behalf of real or legal persons, charitable foundations, retirement insurance funds and other institution

f. Summary Information on the Bank's Rating by the International Rating Institutions

Fitch Rating's November 2016	Notes
Long Term Issuer Default Rating	BBB
Short Term Issuer Default Rating	F2
Local Currency Long Term Issuer Default Rating	BBB
Local Currency Short Term Issuer Default Rating	F2
Support Rating	2

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations and disclosures related to the income statement

a. Information on profit share income:

1. Information on profit share received from loans:

	Current period		Prior period	
	TL	FC	TL	FC
Profit share on loans	2,560,187	191,166	2,141,419	151,774
Short term loans	657,871	24,382	558,220	21,329
Medium and long term loans	1,896,616	166,784	1,576,241	130,445
Profit share on non-performing loans	5,700	-	6,958	-
Premiums received from resource utilization support fund	-	-	-	-

2. Information on profit share received from banks:

	Current period		Prior period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	-	-	-	-
Foreign Banks	3,760	20,465	302	21,459
Branches and head office abroad	-	-	-	-
Total	3,760	20,465	302	21,459

3. Information on profit share income from securities portfolio:

The Bank received TL 205,883 of profit share income from rent certificates (sukuk) that are disclosed in detail which is given the details in available for sale financial assets information. (31 December 2015: TL 165,423)

4. Information on profit share income received from associates and subsidiaries:

	Current period	Prior period
Profit share income received from associates and subsidiaries	4	4

b. Information on profit share expenses:

i. Information on profit share expense given to funds borrowed:

	Current period		Prior period	
	TL	FC	TL	FC
Banks	19,229	78,043	12,923	61,992
The Central Bank of the Republic of Turkey	-	-	-	-
Domestic banks	9,362	6,971	10,434	2,220
Foreign banks	9,867	71,072	2,489	59,772
Branches and head office abroad	-	-	-	-
Other Institutions	60,577	37,462	50,251	4,824
Total	79,806	115,505	63,174	66,816

ii. Profit share expense given to associates and subsidiaries:

	Current Period	Prior Period
Profit share expenses given to associates and subsidiaries	1,130	557

iii. Profit share expense paid to securities issued: TL 255,545 (1 January-31 December 2015: 200,090).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations and disclosures related to the income statement (continued)

b. Information on profit share expenses (continued)

iv. Distribution of profit share on funds based on maturity of funds:

Current period		Profit Sharing Accounts					Accumulated profit sharing accounts	Total
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		
TL								
Collected funds from banks through current and profit share accounts	-	2,967	-	-	-	-	-	2,967
Non-trading profit sharing account of individuals	228,615	416,199	38,548	-	16,636	13,890	-	713,888
Public sector profit sharing account	80	2,249	434	-	-	-	-	2,763
Commercial sector profit sharing account	19,168	51,686	3,997	-	965	1,391	-	77,207
Other institutions profit sharing account	2,096	3,676	690	-	154	34	-	6,650
Total	249,959	476,777	43,669	-	17,755	15,315	-	803,475
FC								
Banks	426	1,795	-	-	17	230	-	2,468
Non-trading profit sharing account of individuals	22,239	41,478	9,412	-	6,776	2,677	-	82,582
Public sector profit sharing account	-	1	-	-	-	-	-	1
Commercial sector profit sharing account	2,567	13,907	2,342	-	275	444	-	19,535
Other institutions profit sharing account	1,832	1,412	265	-	128	832	-	4,469
Precious metal accounts	-	5,657	395	-	306	-	-	6,358
Total	27,064	64,250	12,414	-	7,502	4,183	-	115,413
Grand Total	277,023	541,027	56,083	-	25,257	19,498	-	918,888

Prior Period		Profit Sharing Accounts					Accumulated profit sharing accounts	Total
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		
TL								
Collected funds from banks through current and profit share accounts	-	1	-	-	-	-	-	1
Non-trading profit sharing account of individuals	162,510	284,933	39,724	-	13,305	17,389	-	517,861
Public sector profit sharing account	5	136	1	-	1,527	549	-	2,218
Commercial sector profit sharing account	16,602	43,863	7,503	-	1,370	1,685	-	71,023
Other institutions profit sharing account	2,303	2,403	425	-	106	29	-	5,266
Total	181,420	331,336	47,653	-	16,308	19,652	-	596,369
FC								
Banks	555	669	394	-	370	3,876	-	5,864
Non-trading profit sharing account of individuals	18,411	36,005	8,335	-	5,119	3,158	-	71,028
Public sector profit sharing account	-	-	-	-	-	-	-	-
Commercial sector profit sharing account	2,600	29,507	1,138	-	1,209	790	-	35,244
Other institutions profit sharing account	1,755	957	171	-	191	56	-	3,130
Precious metal accounts	-	5,669	379	-	263	-	-	6,311
Total	23,321	72,807	10,417	-	7,152	7,880	-	121,577
Grand Total	204,741	404,143	58,070	-	23,460	27,532	-	717,946

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations and disclosures related to the income statement (continued)

c. Information on dividend income:

	Current period	Prior period
Held for Trading Financial Assets	-	-
Fair Value Through Profit or Loss FV	-	-
Available for Sale Financial Assets	-	-
Other (*)	509	-
Total	509	-

(*) This amount related to non-cash capital increase of Kredi Garanti Fonu A.Ş. which is presented in available for sale financial assets.

d. Information on trading income/loss (Net):

	Current period	Prior period
Trading income/loss (net)	330,734	203,777
Income	12,357,815	12,915,893
Gain on capital market transactions	9,074	7,957
Gain on derivative financial instruments	456,035	278,124
Foreign exchange gains	11,892,706	12,629,812
Losses (-)	(12,027,081)	(12,712,116)
Losses on capital market transactions	(1,203)	(1,694)
Losses on derivative financial instruments	(300,606)	(235,676)
Foreign exchange losses	(11,725,272)	(12,474,746)

e. 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	Prior period
Reversal of prior period provisions	79,001	104,529
Income from sale of assets	53,907	27,221
Lease income	2,478	1,825
Other Income	42,188	10,447
Total	177,574	144,022

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations and disclosures related to the income statement (continued)

f. Provisions for loan losses and other receivables of the Bank:

	Current period	Prior period
Specific provisions for loans and other receivables	464,013	337,621
III. group loans and receivables	79,691	74,037
IV. group loans and receivables	217,987	146,981
V. group loans and receivables	166,335	116,603
Doubtful commissions, fees and other receivables	1,254	191
General provision expenses	-	93,342
Provision expenses for possible losses	-	-
Impairment provision of marketable securities	3,081	559
Financial Assets at fair value through profit and loss	3,081	559
Investment securities available for sale	-	-
Impairment provision of associates, subsidiaries, joint ventures and held to maturity investments	-	714
Associates	-	714
Subsidiaries	-	-
Joint ventures	-	-
Held to maturity investments	-	-
Other (*)	45,765	8,656
Total	514,113	441,083

(*) Other item includes TL 4,450 is lawsuit provision (31 December 2015: TL 4,450), TL 14,450 is provision which is related to possible penalty regarding inspection by the Ministry of Customs and Trade(31 December 2015: None.) and TL 18,850 is provision amount foreseen for delay in penalties. According to the provision regulation, it consists both the provision is allocated 5% of profit which will be distributed to participation accounts and %5 impairment amount booked for non-depreciable assets which are classified for held for sale assets.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations and disclosures related to the income statement (Continued)

g. Information on other operating expenses:

	Current period	Prior period
Personnel expenses	619,204	522,363
Provision for retirement pay liability	8,279	9,578
Depreciation expenses of tangible assets	51,827	42,637
Depreciation expenses of intangible assets	26,885	29,720
Depreciation expenses of assets held for sale	1,014	1,062
Other operating expenses	268,310	244,249
Rent expenses	101,308	87,885
Maintenance expenses	30,022	21,621
Advertisement expenses	23,890	11,749
Communication expenses	30,746	27,145
Heating, electricity and water expenses	12,390	11,558
Cleaning expenses	5,185	4,813
Vehicle expenses	4,541	4,477
Stationery expenses	4,236	4,215
Other expenses	55,992	70,786
Losses on sales of assets	366	782
Deposit insurance fund expenses	66,068	59,593
Other	95,491	78,934
Total	1,137,444	988,918

h. Information on profit/loss from continued and discontinued operations before taxes:

Income before tax amounts to TL 711,557 increased by 31.86% as compared to the prior period (2015 – TL 539.632). Income before tax includes TL 1,697,214 (2015 – TL 1,490,173) net profit share income and TL 154,660 (2015 – TL 133,888) net fees and commission income. Other operating expense amount is TL 1,138,542 (2015 – TL 988,918).

i. Information on tax provision for continued and discontinued operations:

In current period, deferred tax income of the Group is TL 7,517 (31 December 2015 – TL 45,687 -income) deferred tax income) and current tax provision expense is TL 124,964 (2015 – TL 159,411).

j. 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IV. Explanations and disclosures related to the income statement (Continued)

k. Information on net income/loss:

- i. 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 Group's performance for the period: As of 31 December 2016, net profit share income is TL 1,697,214 (1 January-31 December 2015 – 1,490,173 TL), net fees and commission income is TL 154,660 (1 January-31 December 2015 – TL 133,888).
- ii. Effect of changes in accounting estimates on income statement for the current and, if any for subsequent periods: None (1 January-31 December 2015– None).

l. Details of sub accounts comprising at least 20% of other items in income statement, exceeding 10% of total income statement:

As of 31 December 2016, other fees and commissions received is TL 225,069 (1 January-31 December 2015 – TL 179,301), TL 45,026 of this amount is related with credit card fees and commissions (1 January-31 December 2015 – TL 31,283) and TL 46,026 of this amount is related with credit card and commissions (1 January-31 December 2015 – TL 36,962).

As of 31 December 2016, other fees and commissions given is TL 158,181 (1 January-31 December 2015 – TL 127,266), TL 54,634 (1 January-31 December 2015 – TL 42,855) of this amount is related with POS clearing commissions and installation expenses, TL 7,831 (1 January-31 December 2015 – TL 5,858) of this amount is related with fees and commissions paid for credit cards.

V. Statement of Changes in Shareholders' Equity

- a) 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.

- b) In the current year, the Bank made dividend payments amounting to TL 3,399 to members of Board of Directors. In the General Assembly meeting held in 31 March 2016 it has been decided that TL 22,574 would be transferred to legal reserves, TL 110,396 would be transferred to extraordinary reserve, TL 48,788 would be transferred to other reserves and TL 260,000 would be transferred to paid up capital.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VI. Explanations and notes related to cash flow statement

a. Information regarding the balances of cash and cash equivalents at the beginning of the period:

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.

(i). Cash and cash equivalents at the beginning of the period:

	Current period	Prior period
Cash	4,777,114	2,004,817
Cash in TL/foreign currency, others	1,757,266	756,738
Deposits at banks (up to 3 months)	3,019,848	1,248,079
Cash equivalents	-	-
Interbank money markets	-	-
Time deposits at banks	-	-
Marketable securities	-	-
Total cash and cash equivalents	4,777,114	2,004,817

(ii). Cash and cash equivalents at the end of the period:

	Current period	Prior period
Cash	4,898,436	4,777,114
Cash in TL/foreign currency, others	763,391	1,757,266
Deposits at banks (up to 3 months)	4,135,045	3,019,848
Cash equivalents	-	-
Interbank money markets	-	-
Time deposits at banks	-	-
Marketable securities	-	-
Total cash and cash equivalents	4,898,436	4,777,114

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VI. Explanations and notes related to cash flow statement (continued)

b. Cash and cash equivalent items which are restricted for the usage of the Bank by legal or other limitations: None.

c. Effects of the changes in foreign currency rates on cash and cash equivalents:

“Other items” amounting to TL (423,212) (1 January-31 December 2015: TL (173,764) 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 607,299 (1 January-31 December 2015: TL 208,600) 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 (302,200) (1 January-31 December 2015: TL (26,968)) in “Changes in operating assets and liabilities” consist of changes in tax assets and other asset.

d. 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 140,046 as of 31 December 2016 (31 December 2015 – TL (121,283)). 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VII. Explanations and notes related to risk group of the Bank:

a. 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:

1. 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	10	132	1,014	13,543	126,600	600
Balance at end of period	14	132	998	16,818	135,364	20,290
Profit share and commission income	-	4	102	3	7,632	1

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

2. 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	5	25,640	580	13,638	79,663	283
Balance at end of period	10	132	1,014	13,543	126,600	600
Profit share and commission income	-	4	75	-	6,050	1

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

3. (i). 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	Prior period	Current period	Prior period	Current period	Prior period
Current and profit sharing accounts						
Balance at the beginning of period	12,674	8,382	57,602	42,633	137,160	207,428
Balance at the end of period	18,799	12,674	58,441	57,602	113,915	137,160
Profit share expense	1,130	557	3,213	2,571	3,186	6,706

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411

(ii) Forward and option agreements and other similar agreements with the risk group of the Bank: None. (31 December 2015: None)

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

VII. Explanations and notes related to risk group of the Bank (Continued):

a. 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 (Continued):

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)		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
Loans Received						
Balance at beginning of period	-	-	2,607,122	2,618,833	166,742	26,640
Balance at end of period	-	-	2,954,769	2,607,122	-	166,742
Profit share expense	-	-	74,722	80,076	2,965	872

VIII. Domestic, foreign and off-shore branches or equity investments, and foreign representative offices

1. Domestic and foreign branches and representative offices:

	Number of Branches	Number of Employees			
Domestic branches (*)	385	3,933			
			Country		
Foreign representative offices				Total Assets (TL)	Legal Capital (USD)
Foreign bank	1	10	Dubai	210,614	50,000,000
	1	70	Germany	400,190	63,251,307
Off-shore branches	1	3	Bahrain	2,933,420	
Foreign branches					

(*) The personnel working at Headquarters, Operation Center and Region quarters are not included in the domestic branches personnel number.

2. Opening or closing of domestic and foreign branches and representative offices and significant changes in organizational structure

In 2016, 27 new domestic branches (2015-52 branches) were opened.

b. Information on remunerations provided to top management:

As of 31 December 2016, the Group has paid TL 27,255 to top management (31 December 2015 – TL 18,085-parent bank).

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

IX. 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 310,000 for the the approval of the ordinary general assembly on the meeting dated 25 January 2017.

The Board of Directors of the Bank has decided to increase its capital at KT Bank AG by 30,000,000 Euro resulting its capital to reach from 60,000,000 Euro to 90,000,000 Euro by decision numbered 1672 dated 25 January 2017.

Board of Directors of the Bank has decided the early payment of the funding obtained from Kuwait Finance House on 29 September 2011 in the form of additional capital (defined in the old legislation as “secondary subordinated loan”) amounting to USD 200 million with a 10 year maturity by the decision numbered 1672, dated 25 January 2017.

The Bank’s subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. has issued a rent certificate with three month maturity, TL 80,000 nominal and 10.3% borrowing rate on 11 January 2017.

SECTION SIX

OTHER EXPLANATIONS AND DISCLOSURES

- I. Other matters which must be explained in terms of explicitly, interpretability and understandability of the balance sheet: None.**

SECTION SEVEN

INDEPENDENT AUDITORS’ REPORT

- I- Explanations on the auditors’ report:**

The consolidated financial statements of the Bank have been audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of Deloitte Touche Tohmatsu Limited) and the independent auditors’ report dated 13 February 2017 is presented before the accompanying financial statements.

- II- Notes and disclosures prepared by independent auditors: None**

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

SECTION EIGHT
ANNUAL REPORT

I- Explanations on annual report

a. About Kuveyt Türk

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.

As of 31 December 2016, 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I- Explanations on interim report (Continued)

b. Financial Informations Summary

CONSOLIDATED BALANCE SHEET	31 December 2016	31 December 2015
CASH BALANCES AND CENTRAL BANK	8,325,814	7,612,614
BANKS	4,780,380	3,629,516
LOANS	28,634,683	25,989,041
FINANCE LEASE RECEIVABLES	1,544,543	1,182,860
TANGIBLE ASSETS (Net)	445,172	461,642
OTHER ASSETS	4,995,443	3,219,323
TOTAL ASSETS	48,726,035	42,094,996
FUND COLLECTED	32,012,978	28,125,300
FUNDS BORROWED	3,274,742	4,261,643
BOND ISSUED	4,755,413	3,636,119
FINANCE LEASE PAYABLES	226	131
SUBORDINATED LOANS	1,981,646	589,734
OTHER LIABILITIES	2,697,210	2,033,938
SHAREHOLDERS EQUITY	4,003,820	3,448,131
TOTAL LIABILITIES	48,726,035	42,094,996

CONSOLIDATED STATEMENT OF PROFIT AND LOSS	31 December 2016	31 December 2015
PROFIT SHARE INCOME	3,141,112	2,590,094
PROFIT SHARE EXPENSE	1,443,898	1,099,921
NET PROFIT SHARE INCOME/EXPENSE	1,697,214	1,490,173
NET FEES AND COMMISSION INCOME/EXPENSE	154,660	133,888
DIVIDEND INCOME	509	-
NET TRADING INCOME	330,734	203,777
OTHER OPERATING INCOME	177,574	144,022
PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	514,113	441,083
OTHER OPERATING EXPENSES (-)	1,137,444	988,918
PROFIT/LOSS FROM SUBSIDIARIES ACCOUNTED UNDER EQUITY METHOD	2,423	(2,227)
PROFIT / (LOSS) BEFORE TAX	711,557	539,632
TAX CHARGE	(132,481)	(113,724)
CURRENT PERIOD INCOME/(LOSSES)	579,076	425,908

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I- Explanations on interim report (Continued)

b. Financial Informations Summary (Continued)

	31 December 2016	31 December 2015
Total Loans/Total Assets*	61.94%	64.55%
Total Loans/Fund Collected*	94.27%	96.61%
Average Equity Profit	15.54%	17.46%
Average Assets Profit	1.28%	1.49%
Capital Adequacy Ratio	18.19%	14.23%

* Finance Lease Receivables is included in total loans.

c. Financial Position, Performance and Assessment of the Prospects for the Future

As of 31 December 2016, consolidated financial statements asset size is TL 48 million 726 thousand, amount of the utilization of funds is TL 30 million 179 thousand and funds collected amount is TL 32 million 13 thousand. Due to the effect of the first nine months' profit TL 579 thousand, the ratio of shareholder equity increased 16 % by reaching TL 4 million 3 thousand. As of December 31, 2016, consolidated capital adequacy ratio has been reached 18.19 %.

The expectations for growth and profitability will continue in the development line.

d. Announcement regarding important developments during the period

The Bank obtained a subordinated loan with 10-years maturity (the old legislation with the definition of "subordinated debt"), amounting to USD 200 million, from Kuwait Finance House on 29 September 2011. Published by the BRSA made to the Regulation on Equities of Banks and at March 31st, 2016 contract to adapt to the changes that came into force has been amended on March 29, 2016, 25 April 2016 the BRSA should be considered as a capital contribution of credit monitoring capital contribution in the bank records continue to be particularly suitable.

Kuwait Turkish Participation Bank, on February 17, 2016 Cayman Islands' as resident Special Purpose Vehicle (SPV) KT Sukuk Company Limited with over 350 million US dollars worth of sukuk issued by the BRSA by the issue in the Regulation on the Capital Adequacy requirements having a contribution, it has provided capital loans. BRSA dated 2 September 2015 and 20008792101.01[93]E.12819 Letter of Conformity No included in the loan be included in the calculation of capital contribution to the Bank / sukuk annual rate of return is 7.90%, 5 year maturity and repayment option at the end of the Bank 10 it is determined as years.

The bank, KT Kira Sertifikaları Varlık Kiralama A.Ş. through seven separate process with a total nominal value of 685,000 thousand, different term minimum and maximum 9.66% 10.36% cost has issued sukuk.

The parent bank, in 31 October 2011, to collect fund form investors issued rent certificate with a nominal value of 350 mio USD over its subsidiaries named KT Sukuk Varlık Kiralama A.Ş. with five year maturity and %5.875 annually profit share that rent certificate was amortised in 29 October 2016.

The number of branches of the Group in the new year was 362, and as of report date the number of branches of the Group is 391. The number of employee was 5,542 in the new year, as of report date it reached 5,691.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
NOTES AND DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

I- Explanations on interim report (Continued)

e. Assessments about regarding expectations on the subsequent interim period

After the period, opening new branch facilities is in process. It is planned that branch number will reach 400 until the year end.