

**KUVEYT TÜRK KATILIM BANKASI  
ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE  
YEAR ENDED  
31 DECEMBER 2015 AND  
INDEPENDENT AUDITOR'S REPORT

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi (the "Bank") and its subsidiaries together (the Group), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and consolidated other comprehensive income, consolidated statement of changes in 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 Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*DRT Bağımsız Denetim ve ŞMMM A.Ş.*

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

Istanbul, 20 April 2016

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

**Consolidated statement of financial position as at December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL)

|  | Notes | December 31,<br>2015 | December 31,<br>2014 |
|--|-------|----------------------|----------------------|
| <b>Assets</b>  |       |                      |                      |
| Cash and balances with the Central Bank                          | 4     | 1,970,359            | 1,127,568            |
| Balances with other banks and financial institutions             | 4     | 4,753,336            | 3,218,932            |
| Reserve deposits at the Central Bank                             | 5     | 5,141,295            | 4,155,609            |
| Financial assets – held for trading                              | 6     | 89,820               | 48,095               |
| <i>Derivative financial instruments</i>                          | 20    | 44,606               | 43,115               |
| <i>Share Certificates</i>  |       | 390                  | 181                  |
| <i>Precious Metal Fund</i>                                       |       | 207                  | 4,799                |
| <i>Sukuk held for trading</i>                                    | 6     | 44,617               | -                    |
| Financial assets – available-for-sale                            | 6     | 2,354,196            | 2,203,127            |
| Due from financing activities, net                               | 7     | 24,669,042           | 19,978,321           |
| Minimum finance lease payments receivable, net                   | 8     | 1,183,424            | 710,852              |
| Precious Metals  |       | 471,703              | 1,301,466            |
| Construction projects, net                                       | 10    | 52,904               | 50,020               |
| Joint venture  |       | 8,378                | 6,306                |
| Investment properties, net                                       | 11    | 33,807               | 26,136               |
| Property and equipment, net                                      | 13    | 430,428              | 377,753              |
| Intangible assets, net   | 14    | 119,452              | 70,331               |
| Deferred tax assets  | 17    | 98,469               | 43,953               |
| Other assets   | 9     | 456,682              | 406,269              |
|  |       | <b>41,833,295</b>    | <b>33,724,738</b>    |
| Assets and a disposal group held for sale                        | 12    | 27,332               | 26,008               |
| <b>Total assets</b>  |       | <b>41,860,627</b>    | <b>33,750,746</b>    |
| <b>Liabilities and equity</b>                                    |       |                      |                      |
| Due to other financial institutions and banks                    | 15    | 4,261,643            | 4,399,347            |
| Sukuk securities issued  | 15    | 3,636,119            | 2,193,590            |
| Subordinated loans   | 15    | 589,734              | 464,592              |
| Money market balances  |       | 711,542              | 708,743              |
| Current and profit / loss sharing investors' accounts            | 16    | 28,145,291           | 22,215,843           |
| Derivative financial instruments                                 | 20    | 170,173              | 25,885               |
| Employee benefit obligations                                     | 18    | 106,905              | 92,856               |
| Income taxes payable   | 17    | 36,472               | 32,315               |
| Other liabilities and provisions                                 | 19    | 502,024              | 380,872              |
| <b>Total liabilities</b>   |       | <b>38,159,903</b>    | <b>30,514,043</b>    |
| Share capital  | 21    | 2,527,322            | 2,287,005            |
| Share premium  | 21    | 22,933               | 23,250               |
| Available for sale investments reserve, net of tax               |       | 5,394                | 21,069               |
| Employee termination benefits reserve, net of tax                | 18    | (14,916)             | (17,437)             |
| Legal reserves and retained earnings                             | 22    | 1,142,532            | 921,312              |
| Currency translation differences                                 |       | 38,301               | 22,410               |
| Other reserve  | 22    | (22,162)             | (22,123)             |
| Non-controlling interest   |       | 1,320                | 1,217                |
| <b>Total equity attributable to equity holders of the parent</b> |       | <b>3,700,724</b>     | <b>3,236,703</b>     |
| <b>Total liabilities and equity</b>                              |       | <b>41,860,627</b>    | <b>33,750,746</b>    |

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

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

**Consolidated statement of comprehensive income for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL)

|  | Notes | 2015               | 2014             |
|--|-------|--------------------|------------------|
| <b>Income from financing activities:</b>   |       |                    |                  |
| Profit on originated loans from profit / loss sharing accounts   |       | 1,006,260          | 873,316          |
| Profit on originated loans from current accounts and equity  |       | 1,332,032          | 971,439          |
| Profit on deposits with other banks and financial institutions   |       | 22,542             | 9,952            |
| Profit on finance leases   |       | 75,182             | 43,157           |
| <b>Total income from financing activities</b>  |       | <b>2,436,016</b>   | <b>1,897,864</b> |
| Profit shares distributed to participation accounts  |       | (732,444)          | (570,009)        |
| Profit shares distributed to other banks and financial institutions  |       | (396,294)          | (245,574)        |
| <b>Net financing income</b>  |       | <b>1,307,278</b>   | <b>1,082,281</b> |
| Provision for impairment of amounts due from financing activities and lease receivables  | 7, 8  | (360,725)          | (182,272)        |
| <b>Net financing income after provision for impairment in due from financing activities and lease receivables</b>  |       | <b>946,553</b>     | <b>900,009</b>   |
| Foreign exchange gain, net   |       | 153,992            | 119,892          |
| <b>Net financing income after net foreign exchange gain / (loss)</b>   |       | <b>1,100,545</b>   | <b>1,019,901</b> |
| Fees and commission income   | 25    | 413,140            | 367,754          |
| Net trading income   |       | 49,049             | 27,764           |
| Other income   |       | 141,206            | 46,273           |
| <b>Total other operating income</b>  |       | <b>603,395</b>     | <b>441,791</b>   |
| Fees and commission expense  | 25    | (145,137)          | (99,820)         |
| Staff costs  | 26    | (529,000)          | (438,790)        |
| Depreciation and amortization expense  |       | (103,739)          | (52,781)         |
| Withholdings and other taxes   |       | (36,030)           | (28,509)         |
| Rent expense   |       | (87,921)           | (73,109)         |
| Other expenses   | 27    | (183,308)          | (207,185)        |
| Share of (loss) of a joint venture   |       | (2,227)            | (3,758)          |
| <b>Total other operating expense</b>   |       | <b>(1,087,362)</b> | <b>(903,952)</b> |
| <b>Income before taxation</b>  |       | <b>616,578</b>     | <b>557,740</b>   |
| Current tax charge   | 17    | (159,394)          | (114,821)        |
| Deferred tax (charge)/credit   | 17    | 43,062             | 15,117           |
| <b>Net income for the year</b>   |       | <b>500,246</b>     | <b>458,036</b>   |
| <b>Attributable to:</b>  |       |                    |                  |
| - Owners of the equity   |       | 500,143            | 458,104          |
| - Non-controlling interests  |       | 103                | (68)             |
| <b>Other comprehensive income</b>  |       |                    |                  |
| <b>Items that are or may be reclassified subsequently to profit or loss:</b>   |       |                    |                  |
| Exchange differences on translation of the foreign subsidiary  |       | 15,891             | 7,969            |
| Available-for-sale investments reserve   |       | (15,675)           | 19,044           |
| -Net change in fair value  |       | (19,594)           | 23,805           |
| -Deferred tax relating to component of other comprehensive income  |       | 3,919              | (4,761)          |
| <b>Items that will not be reclassified to profit or loss</b>   |       |                    |                  |
| Employee termination benefits reserve  |       | 2,521              | (5,161)          |
| -Net change in fair value  |       | 3,151              | (6,451)          |
| -Deferred tax relating to component of other comprehensive income  |       | (630)              | 1,290            |
| <b>Other comprehensive income for the year</b>   |       | <b>2,737</b>       | <b>21,852</b>    |
| <b>Total comprehensive income for the year</b>   |       | <b>502,983</b>     | <b>479,888</b>   |
| <b>Attributable to:</b>  |       |                    |                  |
| - Owners of the equity   |       | 502,880            | 479,956          |
| - Non-controlling interests  |       | 103                | (68)             |
| <b>Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)</b> | 23    | <b>0.203</b>       | <b>0.229</b>     |

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of changes in equity for the year ended December 31, 2015  
(Currency – In thousands of Turkish Lira - TL)

|   | Share<br>Capital | Share<br>Premium | Legal<br>Reserves | Retained<br>Earnings | Other<br>Reserves | Available-for-<br>sale investments<br>reserve | Employee<br>termination<br>benefits reserve | Currency<br>Translation<br>Differences | Non-<br>Controlling<br>Interest | Total            |
|---|------------------|------------------|-------------------|----------------------|-------------------|---|---|--|---------------------------------|------------------|
| Balances at January 1, 2014                       | 1,700,000        | 23,250           | 60,800            | 652,855              | (22,589)          | 2,025   | (12,276)                                    | 14,441                                 | -                               | 2,418,506        |
| Share capital increase                            | 587,005          | -                | -                 | (230,000)            | -                 | -   | -   | -                                      | -                               | 357,005          |
| from retained earnings                            | 230,000          | -                | -                 | (230,000)            | -                 | -   | -   | -                                      | -                               | -                |
| cash injection                                    | 357,005          | -                | -                 | -                    | -                 | -   | -   | -                                      | -                               | 357,005          |
| Transfer from retained earnings to legal reserves | -                | -                | 17,069            | (17,069)             | -                 | -   | -   | -                                      | -                               | -                |
| Dividends paid                                    | -                | -                | -                 | (20,517)             | -                 | -   | -   | -                                      | -                               | (20,517)         |
| Total comprehensive income for the year           | -                | -                | -                 | 458,104              | -                 | 19,044  | (5,161)                                     | 7,969                                  | (68)                            | 479,888          |
| Non-controlling interest                          | -                | -                | -                 | 70                   | 466               | -   | -   | -                                      | 1,285                           | 1,821            |
| <b>Balances at December 31, 2014</b>              | <b>2,287,005</b> | <b>23,250</b>    | <b>77,869</b>     | <b>843,443</b>       | <b>(22,123)</b>   | <b>21,069</b>                                 | <b>(17,437)</b>                             | <b>22,410</b>                          | <b>1,217</b>                    | <b>3,236,703</b> |
| Share capital increase                            | 240,000          | -                | -                 | (240,000)            | -                 | -   | -   | -                                      | -                               | -                |
| from retained earnings                            | 240,000          | -                | -                 | (240,000)            | -                 | -   | -   | -                                      | -                               | -                |
| cash injection                                    | -                | -                | -                 | -                    | -                 | -   | -   | -                                      | -                               | -                |
| Transfer from retained earnings to legal reserves | -                | -                | 22,418            | (22,418)             | -                 | -   | -   | -                                      | -                               | -                |
| Dividends paid                                    | -                | -                | -                 | (38,923)             | -                 | -   | -   | -                                      | -                               | (38,923)         |
| Total comprehensive income for the year           | -                | -                | -                 | 500,143              | -                 | (15,675)                                      | 2,521                                       | 15,891                                 | 103                             | 502,983          |
| Other   | 317              | (317)            | -                 | -                    | (39)              | -   | -   | -                                      | -                               | (39)             |
| Non-controlling interest                          | -                | -                | -                 | -                    | -                 | -   | -   | -                                      | -                               | -                |
| <b>Balances at December 31, 2015</b>              | <b>2,527,322</b> | <b>22,933</b>    | <b>100,287</b>    | <b>1,042,245</b>     | <b>(22,162)</b>   | <b>5,394</b>                                  | <b>(14,916)</b>                             | <b>38,301</b>                          | <b>1,320</b>                    | <b>3,700,724</b> |

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

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

**Consolidated statement of cash flows for the year ended December 31, 2015**

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

|  | Notes      | 2015             | 2014             |
|--|------------|------------------|------------------|
| <b>Cash flows from operating activities:</b>   |            |                  |                  |
| Income from continuing operations before taxation  |            | 616,578          | 557,740          |
| Share of loss of a joint venture   |            | 2,227            | 3,758            |
| Depreciation and amortization  | 11, 13, 14 | 103,739          | 52,781           |
| Provision for employee termination and other benefits  | 18         | 12,046           | 8,040            |
| Provision for personnel bonus accrual  | 18         | 49,677           | 48,600           |
| Provision for impairment in due from financing activities and lease receivables                          | 7, 8       | 360,725          | 182,272          |
| Income accrual of funds invested   |            | (72,859)         | (89,995)         |
| Reversal of impairment in investment property  | 10         | 133              | 229              |
| Deferred income  |            | (35,553)         | (20,845)         |
| Impact of exchange difference on cash at banks and loans   |            | 121,283          | (17,067)         |
| Expense accrual of participation accounts  |            | 18,994           | 9,242            |
| Expense and foreign exchange accrual of funds borrowed   |            | 515,951          | 132,741          |
| Net change in derivative financial instruments   | 20         | 142,797          | 32,561           |
| Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale |            | (22,832)         | (17,824)         |
| <b>Operating income before changes in operating assets and liabilities</b>                               |            | <b>1,812,906</b> | <b>882,233</b>   |
| Net changes in :   |            |                  |                  |
| Reserve deposits at the Central Bank of Turkey   |            | (985,686)        | (1,167,518)      |
| Due from financing activities  |            | (4,963,619)      | (4,151,953)      |
| Minimum finance lease payments receivables   |            | (467,350)        | (310,390)        |
| Other assets and construction projects   |            | (130,002)        | (123,790)        |
| Current accounts and profit/loss sharing investors' accounts   |            | 5,900,202        | 5,708,688        |
| Other liabilities  |            | 190,889          | 58,338           |
| Payment for employee termination benefits  | 18         | (3,620)          | (2,818)          |
| Payment for personnel bonuses  | 18         | (48,600)         | (36,700)         |
| Precious metals  |            | 829,763          | (834,632)        |
| Income taxes paid  |            | (155,237)        | (102,602)        |
| <b>Net cash used in operating activities</b>   |            | <b>1,979,646</b> | <b>(81,144)</b>  |
| Cash flows from investing activities:  |            |                  |                  |
| Purchase of available-for-sale, held-to-maturity and held-for-trading securities                         | 6          | (1,314,465)      | (1,217,638)      |
| Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities               | 6          | 1,123,574        | 382,820          |
| Purchase of property and equipment, intangible assets and investment properties                          | 11, 13, 14 | (240,667)        | (283,882)        |
| Proceeds from sale of property and equipment, intangible assets and investment properties                |            | 82,006           | 150,936          |
| Capital increase in investment in associates   |            | -                | (5,000)          |
| Proceeds from sale of asset and liabilities held for sale  |            | 246              | 19,241           |
| <b>Net cash used in investing activities</b>   |            | <b>(349,306)</b> | <b>(953,523)</b> |
| Cash flows from financing activities:  |            |                  |                  |
| Dividends paid   | 21         | (38,923)         | (20,517)         |
| Increase in due to financial institutions and banks  |            | (13,631)         | 876,206          |
| Sukuk securities issued  |            | 2,066,531        | 1,356,450        |
| Sukuk securities redeemed  |            | (1,156,091)      | (200,000)        |
| Increase in share capital  |            | -                | 357,005          |
| Transactions with non-controlling interest   |            | -                | 1,821            |
| <b>Net cash provided by financing activities</b>   |            | <b>857,886</b>   | <b>2,370,965</b> |
| <b>Net increase in cash and cash equivalents</b>   |            | <b>2,488,226</b> | <b>1,336,298</b> |
| <b>Net foreign exchange difference on cash and cash equivalents</b>                                      |            | <b>(121,283)</b> | <b>17,067</b>    |
| Cash and cash equivalents at the beginning of the year   | 4          | 4,198,100        | 2,844,735        |
| <b>Cash and cash equivalents at the end of the year</b>  | 4          | <b>6,565,043</b> | <b>4,198,100</b> |

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



## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements for the year ended December 31, 2015

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

#### 1. Corporate information

##### General

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

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on March 4, 2016. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

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

The Bank’s subsidiary, Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. (“Körfez”), in which the Bank has 75% shareholding was incorporated in June 1996 in Turkey. Körfez’s registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez’s main sources of revenue are from the sales of these projects.

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

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

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

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

The Bank’s other subsidiary, KT Bank AG which is 100% owned by the Bank was established in April, 2015. Main field of its operations are providing interest free corporate banking services and collecting funds through current and profit/loss sharing accounts in compliance with the regulation

The bank established a pension company jointly with Albaraka Türk Katılım Bankası A.Ş, holding 50% of the shares. It is registered with the trade name “Katılım Emeklilik ve Hayat Anonim Şirketi”, 895027 registry numbered dated 17 December 2013 by İstanbul Register of Commerce.

KT Portföy Yönetim Anonim Şirketi (“Company”), is operating in Turkey. The Company is founded in 26 May 2015 to operate portfolio management company.

The main aim of the bank is to serve its customers in every aspect of the fund management business with a participation based portfolio management company.

The Bank established an IT company with holding %100 of the shares. It is registered with the trade name “Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi Anonim Şirketi”, dated 1 December 2015 by İstanbul Register of Commerce.

**Notes to consolidated financial statements for the year ended December 31, 2015**

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

**2. Summary of significant accounting policies**

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss and available-for-sale investments.

The consolidated financial statements are presented in Turkish Lira (“TL”) and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter (“OTC”) derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**2. Summary of significant accounting policies (continued)**

**Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements**

None.

**New and Revised IFRSs applied with no material effect on the consolidated financial statements**

|                                   |   |
|-----------------------------------|---|
| Amendments to IFRS 10, 11, IAS 27 | <i>Investment Entities<sup>1</sup></i>  |
| Amendments to IAS 32              | <i>Offsetting Financial Assets and Financial Liabilities<sup>1</sup></i>        |
| Amendments to IAS 36              | <i>Recoverable Amount Disclosures for Non-Financial Assets<sup>1</sup></i>      |
| Amendments to IAS 39              | <i>Novation of Derivatives and Continuation of Hedge Accounting<sup>1</sup></i> |
| IFRIC 21                          | <i>Levies<sup>1</sup></i>   |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

**Amendments to IFRS 10, 11, IAS 27 *Investment Entities***

This amendment with the additional provisions of IFRS 10 provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss.

**Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities***

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

**Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets***

As a consequence of IFRS 13 *Fair Value Measurements*, there are amendments in the explanations about the measurement of the recoverable amount of an impaired asset. This amendment is limited to non-financial assets and paragraphs 130 and 134 of IAS 36 has been changed.

**Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting***

This amendment to IAS 39 makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

**IFRIC 21 *Levies***

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

## 2. Summary of significant accounting policies (continued)

### New and Revised IFRSs issue but not yet effective (continued)

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

|   |   |
|---|---|
| IFRS 9                                    | <i>Financial Instruments</i> <sup>5</sup>   |
| Amendments to IAS 19                      | <i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>   |
| Annual Improvements to 2010-2012 Cycle    | <i>IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38, IAS 24</i> <sup>1</sup>                            |
| Annual Improvements to 2011-2013 Cycle    | <i>IFRS 1, IFRS 3, IFRS 13, IAS 40</i> <sup>1</sup>   |
| IFRS 14                                   | <i>Regulatory Deferral Accounts</i> <sup>2</sup>  |
| Amendments to IFRS 11                     | <i>Accounting for Acquisition of Interests in Joint operations</i> <sup>2</sup>                           |
| Amendments to IAS 16 and IAS 38           | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>                  |
| Amendments to IAS 16 and IAS 41           | <i>Agriculture: Bearer Plants</i> <sup>2</sup>  |
| IFRS 15                                   | <i>Revenue from Contracts with Customers</i> <sup>4</sup>   |
| Amendments to IAS 27                      | <i>Equity Method in Separate Financial Statements</i> <sup>2</sup>  |
| Amendments to IAS 10 and IAS 28           | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup> |
| Annual Improvements to 2012-2014 Cycle    | <i>IFRS 5, IFRS 7, IAS 9, IAS 34</i> <sup>3</sup>   |
| Amendments to IAS 1                       | <i>Disclosure Initiative</i> <sup>2</sup>   |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | <i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>                             |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2016.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018.

### IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

### Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

### Annual Improvements to 2010-2012 Cycle

**IFRS 2:** Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'

**IFRS 3:** Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

**IFRS 8:** Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

**2. Summary of significant accounting policies (continued)**

**New and Revised IFRSs issue but not yet effective (continued)**

**IFRS 13:** Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

**IAS 16 and IAS 38:** Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

**IAS 24:** Clarify how payments to entities providing management services are to be disclosed.

**Annual Improvements to 2011-2013 Cycle**

**IFRS 1:** Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).

**IFRS 3:** Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

**IFRS 13:** Clarify the scope of the portfolio exception in paragraph 52.

**IAS 40:** Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

**IFRS 14 *Regulatory Deferral Accounts***

IFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

**Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint operations***

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

**Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

2. Summary of significant accounting policies (continued)

New and Revised IFRSs issue but not yet effective (continued)

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

This amendment include “bearer plants” within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when the entity satisfies a performance obligation.

**Amendments to IAS 27 Equity Method in Separate Financial Statements**

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

**Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

**Annual Improvements 2012-2014 Cycle**

**IFRS 5:** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

**IFRS 7:** Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

**IAS 9:** Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

**IAS 34:** Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

**Amendments to IAS 1 Disclosure Initiative**

This amendment addresses perceived impediments to preparers exercising their judgement in presenting their financial reports.

**2. Summary of significant accounting policies (continued)**

**New and Revised IFRSs issue but not yet effective (continued)**

**Amendments to IFRS 10, 11, IAS 28 *Investment Entities: Applying the Consolidation Exception***

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The Group evaluates the effects of these standards on the consolidated financial statements.

**Significant accounting judgments and estimates (continued)**

**Deferred taxes:** Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

**Fair value of financial instruments:** Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

**Functional and presentation currency**

The functional currency of the Bank and its subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of Dubai Ltd is US Dollar and the KT Bank AG is EURO. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2015 and 2014 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2015  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### 2. Summary of significant accounting policies (continued)

#### Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2015 and 2014, respectively.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Details of the subsidiaries subject to consolidation are stated below:

| Name of subsidiary                                    | Country of incorporation | Effective shareholding by the Bank (%) |                   |
|---|--------------------------|--|-------------------|
|   |                          | December 31, 2015                      | December 31, 2014 |
| "Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."   | Turkey                   | 97.61%                                 | 100%              |
| "Körfez Tatil Beldesi San. ve Tic. A.Ş."              | Turkey                   | 99.99%                                 | 100%              |
| "KTPB Dubai Limited"                                  | U.A.E.                   | 100%                                   | 100%              |
| "KT Sukuk Varlık Kiralama A.Ş."                       | Turkey                   | 100%                                   | 100%              |
| "KT Kira Sertifikaları Varlık Kiralama A.Ş."          | Turkey                   | 100%                                   | 100%              |
| "KT Portföy Yönetimi A.Ş."                            | Turkey                   | 100%                                   | -                 |
| "KT Bank AG."   | Germany                  | 100%                                   | -                 |
| "Architech Bilişim Sistemleri ve Pazarlama Tic. A.Ş." | Turkey                   | 100%                                   | -                 |



**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**2. Summary of significant accounting policies (continued)**

**Foreign currency transactions**

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The financial statements of the Company and its Turkish subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 *Financial Reporting in Hyperinflationary Economies*. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

| Dates             | USD / TL | EUR / TL |
|-------------------|----------|----------|
| December 31, 2014 | 2.32     | 2.82     |
| December 31, 2015 | 2.91     | 3.18     |

*Foreign Subsidiary*

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 2.719 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

**Property and equipment**

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                                |                                     |
|--------------------------------|-------------------------------------|
| Buildings                      | 50 years                            |
| Furniture and office equipment | 3–7 years                           |
| Motor vehicles                 | 4-5 years                           |
| Leasehold improvements         | Shorter of the lease or useful life |

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

**2. Summary of significant accounting policies (continued)**

**Construction projects**

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

**Investment property**

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years. Land is not depreciated.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

**Intangible assets**

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

**Impairment of non-financial assets**

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**2. Summary of significant accounting policies (continued)**

**Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading, the change in value is recognized through profit and loss.

***Available-for-sale financial assets***

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment. For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealized gains and losses are recognized directly in other comprehensive income under equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Profit share earned while holding investment securities is reported as profit share income.

***Financial assets at fair value through profit or loss***

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

***Held to maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective yield method. Gains or losses are recognized in profit or loss when the investments are derecognized as impaired, as well as through the amortization process.

***Due from financing activities, net***

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as "due from financing activities" and are carried at amortized cost using the effective profit rate. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs, and all other premiums or discounts. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective profit rate of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.

**2. Summary of significant accounting policies (continued)**

**Precious metal accounts**

Gold transactions are accounted under “precious metal depot account” and valuation is performed with the current ounce of gold prices in the market.

**Derivative financial instruments**

The Bank enters into transactions with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group’s risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 “Financial Instruments: Recognition and Measurement”, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis. Fair value of forward and swap contracts are determined based on the comparison of the original forward rate calculated by market interest rates of the related currency for the remaining maturity. Each derivative transaction is carried as asset when the fair value is positive and as liability when the fair value is negative.

The Group enters into profit share and cross currency swap transactions in order to hedge the change in fair value of fixed-rate financial instruments. While applying fair value hedge accounting, the changes in fair values of hedging instrument and hedged item are recognised in income statement. If the hedging is effective, the changes in fair value of the hedged item is presented in statement of financial position together with the fixed-rate loan, and in case of fixed-rate financial assets available for sale, such changes are reclassified from shareholders’ equity to income statement.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

While discontinuing cash flow hedge accounting, the cumulative gains/losses recognised in shareholders’ equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognised in income statement, the gain/losses accounted for under shareholders’ equity, are recognised in income statement.

**Embedded derivatives**

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**2. Summary of significant accounting policies (continued)**

**Derecognition of financial instruments**

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In business combinations from 1 January 2010, if the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date through profit or loss. Furthermore any acquisition costs incurred are expensed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

**2. Summary of significant accounting policies (continued)**

**Cash and cash equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

**Impairment of financial assets**

**a) Assets carried at amortized cost**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - (i) adverse changes in the payment status of borrowers; or
  - (ii) national or local economic conditions that correlate with defaults on the assets of the Group.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

**2. Summary of significant accounting policies (continued)**

**Impairment of financial assets (continued)**

**a) *Assets carried at amortized cost (continued)***

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in “other income” in the income statement.

The Bank’s accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank’s equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

**b) *Available for sale financial assets carried at cost***

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

**c) *Available-for-sale financial assets carried at fair value***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment regarding equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

**d) *Renegotiated financing and leasing receivables***

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

**Current accounts and profit / loss sharing investors’ accounts**

Current accounts and profit/loss sharing investors’ accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors’ accounts that result from financing transactions are distributed among such accounts according to each party’s contribution to the financing investment.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**2. Summary of significant accounting policies (continued)**

**Due to other financial institutions and banks**

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

*Net Investment Hedge*

The Group enters into foreign currency risk arising from net investments in foreign affiliates are hedged with long-term foreign currency borrowings and the currency translation differences arising from the conversion of net investments in foreign affiliates and accounts long-term foreign currency borrowings into TL for other profit reserves and hedging reserves, respectively in equity.

**Employee benefits**

The Group has both defined benefit and defined contribution plans as described below:

**(a) Defined benefit plans:**

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the actuarial valuation by independent actuary. All actuarial gains and losses are recognized in the comprehensive income statement.

**(b) Defined contribution plans:**

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

**Leases**

**The group as lessee**

**Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.



**2. Summary of significant accounting policies (continued)**

**Finance lease**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

**The group as lessor**

**Finance lease**

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

**Income and expense recognition**

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 66% - 99% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

Income earned on available-for-sale equity investments, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**2. Summary of significant accounting policies (continued)**

**Income tax**

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

**Current tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Notes to consolidated financial statements for the year ended December 31, 2015**

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

**2. Summary of significant accounting policies (continued)**

**Fiduciary assets**

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

**Related parties**

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**Dividends**

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

**Subsequent events**

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

**2. Summary of significant accounting policies (continued)**

**Reclassifications**

None.

**3. Segment reporting**

For management purposes, the Group is organized into five business segments:

**Retail Banking** – Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits under TL 1.2 million and loans that are less than TL 750,000 (full amount). and all foreign nationals' loans that are less than TL 500,000 (full amount).

**Small Business Banking** – Principally handling loans and other credit facilities and current, saving and investment accounts for small and medium sized enterprises. Segment portfolio comprised of all businesses that have annual sales turnover up to TL 5 million full amount and their owners.

**Commercial Banking** – Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. Segment portfolio comprised of all businesses that have annual sales turnover between TL 5 million - TL 150 million and their individual owners.

**Corporate Banking** – Principally handling loans and other credit facilities and current, saving and investment accounts for all corporate customers. Segment portfolio comprised of all businesses that have annual sales turnover more than TL 150,000,000 (full amount) and their individual owners.

**Treasury International & Investment Banking** – Principally handling foreign relations with respect to receiving syndication loans, interest free investment instruments and carrying relations with correspondent banks.

The Group's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in the year 2015 or 2014.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a group basis and are not allocated to operating segments.

At the current period the Group has changed the structure of its internal organization in a manner that has also changed the composition of its reportable segments. The Management has decided not to restate the previous period disclosure based on the explanation as per IFRS 8 paragraph 29 and 30 and presented to current period segment information on both old basis and the new basis.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements for the year ended December 31, 2015 (Currency – In thousands of Turkish Lira – TL unless otherwise indicated)

#### 3. Segment reporting

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2015 and 2014, respectively.

| For the period ended<br>December 31st, 2015 | Retail<br>Banking | SME<br>Banking    | Commercial<br>Banking | Corporate<br>Banking | Treasury,<br>International<br>& Investment<br>Banking |                   | Recon-<br>ciliation | Notes      | Grand Total       |
|---|-------------------|-------------------|-----------------------|----------------------|---|-------------------|---------------------|------------|-------------------|
|   |                   |                   |                       |                      | Segments<br>Total                                     | Segments<br>Total |                     |            |                   |
| Income from financing activities & sukuk    | 449,182           | 935,539           | 477,448               | 359,495              | 214,353   | 2,436,016         | -                   | -          | 2,436,016         |
| Intersegment income (*)                     | 590,944           | (338,822)         | (286,082)             | (186,929)            | 220,888   | -                 | -                   | -          | -                 |
| <b>Total financing income</b>               | <b>1,040,126</b>  | <b>596,717</b>    | <b>191,366</b>        | <b>172,566</b>       | <b>435,241</b>  | <b>2,436,016</b>  | <b>-</b>            | <b>-</b>   | <b>2,436,016</b>  |
| Profit shares distributed (**)              | (518,957)         | (119,211)         | (23,323)              | (44,505)             | (424,917)   | (1,130,913)       | 2,175               | (a, b)     | (1,128,738)       |
| Credit loss expense                         | (11,468)          | (110,055)         | (143,654)             | (25,024)             | -   | (290,202)         | (70,523)            | -          | (360,725)         |
| <b>Net financing income</b>                 | <b>509,702</b>    | <b>367,451</b>    | <b>24,388</b>         | <b>103,036</b>       | <b>10,325</b>   | <b>1,014,901</b>  | <b>(68,348)</b>     | <b>-</b>   | <b>946,553</b>    |
| Foreign exchange gain/loss, net             | 32,046            | 53,282            | 23,580                | 14,472               | 811   | 124,192           | 29,800              | (b)        | 153,992           |
| Net trading income                          | -                 | -                 | -                     | -                    | 49,049  | 49,049            | -                   | -          | 49,049            |
| Net fees & commission and other income      | 89,569            | 203,358           | 83,819                | 57,821               | 8,405   | 442,972           | (33,763)            | (b)        | 409,209           |
| Other expenses                              | (317,751)         | (329,487)         | (186,507)             | (66,076)             | (22,275)  | (922,095)         | (20,130)            | (a, b)     | (942,225)         |
| <b>Segment profit/(loss)</b>                | <b>313,566</b>    | <b>294,605</b>    | <b>(54,719)</b>       | <b>109,253</b>       | <b>46,316</b>   | <b>709,020</b>    | <b>(92,442)</b>     | <b>-</b>   | <b>616,578</b>    |
| Tax expenses                                | -                 | -                 | -                     | -                    | -   | -                 | (116,332)           | (c)        | (116,332)         |
| <b>Net profit for the year</b>              | <b>313,566</b>    | <b>294,605</b>    | <b>(54,719)</b>       | <b>109,253</b>       | <b>46,316</b>   | <b>709,020</b>    | <b>(208,774)</b>    | <b>-</b>   | <b>500,246</b>    |
| <b>Segment Assets</b>                       | <b>4,990,489</b>  | <b>10,241,907</b> | <b>7,288,020</b>      | <b>5,083,323</b>     | <b>14,256,887</b>                                     | <b>41,860,627</b> | <b>-</b>            | <b>-</b>   | <b>41,860,627</b> |
| <b>Segment Liabilities &amp; Equity</b>     | <b>18,216,751</b> | <b>6,585,526</b>  | <b>1,425,005</b>      | <b>2,341,094</b>     | <b>9,591,528</b>                                      | <b>38,159,903</b> | <b>3,700,724</b>    | <b>(d)</b> | <b>41,860,627</b> |

a) The difference resulted from the Insurance Fund Premium expenses which included in this line in the performance reports but in the financials it is included in Other Expenses and classification to Foreign exchange gain/(loss) in the performance reports.

b) In the performance reports some of the income and expense items related to precious metal, FX trading, fees and other incomes and other expenses treated in different ways than they are reported in the financials. So there are crossings in these income and expense items.

c) Since the tax is calculated on bank's total profit/loss the tax amount is not included in the performance of segments.

d) Total equity is not allocated to the segments it is kept in the head office.

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**3. Segment reporting (continued)**

| For the period ended<br>December 31st, 2014 | Retail<br>Banking | SME<br>Banking   | Commercial<br>Banking | Corporate<br>Banking | Treasury,<br>International<br>& Investment<br>Banking | Segments<br>Total | Recon-<br>ciliation | Notes  | Grand Total       |
|---|-------------------|------------------|-----------------------|----------------------|---|-------------------|---------------------|--------|-------------------|
| Income from financing activities & sukuk    | 328,476           | 737,131          | 388,416               | 306,861              | 137,638   | 1,898,522         | -                   |        | 1,898,522         |
| Intersegment income (*)                     | 520,045           | (280,338)        | (157,645)             | (124,633)            | 41,913  | (658)             | -                   |        | (658)             |
| <b>Total financing income</b>               | <b>848,521</b>    | <b>456,792</b>   | <b>230,772</b>        | <b>182,228</b>       | <b>179,551</b>  | <b>1,897,864</b>  | -                   |        | <b>1,897,864</b>  |
| Profit shares distributed (**)              | (415,586)         | (97,148)         | (29,240)              | (40,772)             | (249,728)   | (832,474)         | 16,891              | (a, b) | (815,583)         |
| Credit loss expense                         | (9,850)           | (73,521)         | (87,389)              | (11,512)             | -   | (182,272)         | -                   |        | (182,272)         |
| <b>Net financing income</b>                 | <b>423,085</b>    | <b>286,123</b>   | <b>114,143</b>        | <b>129,944</b>       | <b>(70,177)</b>                                       | <b>883,118</b>    | <b>16,891</b>       | -      | <b>900,009</b>    |
| Foreign exchange gain/loss, net             | 15,956            | 41,140           | 17,970                | 13,102               | 1,567   | 89,735            | 30,157              | (b)    | 119,892           |
| Net trading income                          | -                 | -                | -                     | -                    | 27,764  | 27,764            | -                   |        | 27,764            |
| Net fees & commission and other income      | 79,184            | 144,784          | 63,677                | 44,106               | 3,749   | 335,500           | (21,293)            | (b)    | 314,207           |
| Other expenses                              | (288,246)         | (257,611)        | (149,521)             | (45,055)             | (36,452)  | (776,885)         | (27,247)            | (a, b) | (804,132)         |
| <b>Segment profit/(loss)</b>                | <b>229,979</b>    | <b>214,436</b>   | <b>46,269</b>         | <b>142,097</b>       | <b>(73,549)</b>                                       | <b>559,232</b>    | <b>(1,492)</b>      |        | <b>557,740</b>    |
| Tax expenses                                | -                 | -                | -                     | -                    | -   | -                 | (99,704)            | (c)    | (99,704)          |
| <b>Net profit for the year</b>              | <b>229,979</b>    | <b>214,436</b>   | <b>46,269</b>         | <b>142,097</b>       | <b>(73,549)</b>                                       | <b>559,232</b>    | <b>(101,196)</b>    | -      | <b>458,036</b>    |
| <b>Segment Assets</b>                       | <b>4,507,793</b>  | <b>8,499,487</b> | <b>5,462,161</b>      | <b>4,028,546</b>     | <b>11,252,759</b>                                     | <b>33,750,746</b> | -                   |        | <b>33,750,746</b> |
| <b>Segment Liabilities &amp; Equity</b>     | <b>15,249,728</b> | <b>4,744,620</b> | <b>1,315,443</b>      | <b>1,576,104</b>     | <b>7,628,148</b>                                      | <b>30,514,043</b> | <b>3,236,703</b>    | (d)    | <b>33,750,746</b> |

a) The difference resulted from the Insurance Fund Premium expenses which included in this line in the performance reports but in the financials it is included in Other Expenses and classification to Foreign exchange gain/(loss) in the performance reports.

b) In the performance reports some of the income and expense items related to precious metal, FX trading, fees and other incomes and other expenses treated in different ways than they are reported in the financials. So there are crossings in these income and expense items.

c) Since the tax is calculated on bank's total profit/loss the tax amount is not included in the performance of segments.

d) Total equity is not allocated to the segments it is kept in the head office.

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**4. Cash and balances with banks**

|  | December 31,<br>2015 | December 31,<br>2014 |
|--|----------------------|----------------------|
| Cash on hand   | 1,754,547            | 839,819              |
| Balances with the Central Bank of Turkey                 | 215,812              | 287,749              |
| <b>Cash and balances with the Central Bank of Turkey</b> | <b>1,970,359</b>     | <b>1,127,568</b>     |
| Balances with banks and other financial institutions     | 4,753,336            | 3,218,932            |
| <b>Sub Total</b>   | <b>6,723,695</b>     | <b>4,346,500</b>     |
| Deposit with maturity more than three months             | (31,963)             | (31,520)             |
| Less: Interbank gold deposits                            | (126,689)            | (116,880)            |
| <b>Total</b>   | <b>6,565,043</b>     | <b>4,198,100</b>     |

As of December 31, 2015 and 2014, “balances with other banks and financial institutions” are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

|  | 2015    |                       |    |          |    | 2014           |                       |          |
|--|---------|-----------------------|----|----------|----|----------------|-----------------------|----------|
|  | Amount  | Effective profit rate |    |          |    | Amount         | Effective profit rate |          |
|  | Foreign | Foreign               |    |          |    | Foreign        | Foreign               |          |
|  | TL      | currency              | TL | currency | TL | currency       | TL                    | currency |
| Deposits with other banks and financial institutions | -       | 1,154,714             | -  | 0.64%    | -  | 542,401        | -                     | 1.48%    |
| <b>Total</b>   |         | <b>1,154,714</b>      |    |          |    | <b>542,401</b> |                       |          |

**5. Reserve deposits at the Central Bank of Turkey**

|                     | 2015                    |                  | 2014                    |                  |
|---------------------|-------------------------|------------------|-------------------------|------------------|
|                     | Foreign currency (full) | TL               | Foreign currency (full) | TL               |
| US\$                | 1,307,297,427           | 3,801,098        | 1,256,554,832           | 2,913,825        |
| EUR                 | 100,000,000             | 317,760          | 110,000,000             | 310,277          |
| XAU (Standard Gold) | 10,237,278              | 1,022,437        | 10,414,881              | 931,507          |
|                     |                         | <b>5,141,295</b> |                         | <b>4,155,609</b> |

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 5% and 11.5% for TL deposits and other liabilities according to their maturities as of 31 December 2015 (31 December 2014: 5% and 11.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 25% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2015 (31 December 2014: 6% and 13% for all foreign currency liabilities).

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**6. Financial assets**

**Available-for-sale**

|  | 2015             | 2014             |
|--|------------------|------------------|
| Unlisted shares (*)                              | 65,139           | 52,771           |
| Financial Sukuk                                  | 2,289,057        | 2,150,356        |
| <b>Total available-for-sale financial assets</b> | <b>2,354,196</b> | <b>2,203,127</b> |

(\*) The breakdown of unlisted shares is as follows:

|  | Nature of business    | Ownership % | 2015          | Ownership % | 2014          |
|--|-----------------------|-------------|---------------|-------------|---------------|
|  |                       |             | Amount        |             | Amount        |
| KFH Global Sukuk Fund                      | Financial institution | 19          | 55,244        | 19          | 44,080        |
| Kredi Garanti Fonu A.Ş. (KGF)              | Financial institution | 1.75        | 4,210         | 1.75        | 4,210         |
| Neova Sigorta A.Ş.                         | Insurance company     | 6.99        | 4,956         | 6.99        | 3,752         |
| Islamic International Rating Agency (IIRA) | Financial institution | 8.36        | 714           | 8.36        | 714           |
| Borsa Istanbul A.Ş.                        | Exchange entity       | 0.0035      | 15            | 0.0035      | 15            |
|  |                       |             | <b>65,139</b> |             | <b>52,771</b> |

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments.

**Information on financial assets available-for-sale:**

The details of the Rent Certificates which are in Bank's Portfolio "Financial Assets Available for-Sale" are presented below as of 31 December 2015.

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

| REFERENCE    | CURRENCY | COUPON FREQUENCY | ISSUER      | PURCHASE DATE | MATURITY DATE | COST VALUE | RATE |
|--------------|----------|------------------|-------------|---------------|---------------|------------|------|
| TRD170216T17 | TRY      | 6                | T.C. HAZİNE | 19/02/2014    | 17/02/2016    | 358,270    | 10.6 |
| TRD150217T18 | TRY      | 6                | T.C. HAZİNE | 18/02/2015    | 15/02/2017    | 463,344    | 7.80 |
| TRD280916T17 | TRY      | 6                | T.C. HAZİNE | 01/10/2014    | 28/09/2016    | 357,420    | 9.68 |
| TRD160817T11 | TRY      | 6                | T.C. HAZİNE | 19/08/2015    | 16/08/2017    | 318,481    | 9.96 |
| XS0831353361 | USD      | 6                | T.C. HAZİNE | 26/09/2012    | 26/03/2018    | 223,324    | 2.80 |
| XS1141043296 | USD      | 6                | T.C. HAZİNE | 25/11/2014    | 25/11/2024    | 68,893     | 4.48 |

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

| REFERENCE    | CURRENCY | COUPON FREQUENCY | ISSUER        | PURCHASE DATE | MATURITY DATE | COST VALUE | RATE |
|--------------|----------|------------------|---------------|---------------|---------------|------------|------|
| XS1325093877 | USD      | 3                | IILMH         | 25/11/2015    | 24/02/2016    | 145,380    | 3.08 |
| XS1307862513 | USD      | 3                | IILMH         | 15/10/2015    | 19/01/2016    | 87,228     | 0.25 |
| XS1082151868 | USD      | 6                | ALBARAKA TURK | 30/06/2014    | 30/06/2019    | 116,304    | 6.25 |



**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**6. Financial assets (continued)**

**Held for trading**

Financial assets held for trading includes Sukuk, share certificates and B Type Gold Fund listed in the Istanbul Stock Exchange (ISE). Balance of Financial assets held for trading is as below:

|                    | 2015          | 2014         |
|--------------------|---------------|--------------|
| Sukuk              | 44,617        | -            |
| Share Certificates | 390           | 181          |
| B Type Gold Fund   | 207           | 4,799        |
|                    | <b>45,214</b> | <b>4,980</b> |

The movement in financial assets excluding derivatives may be summarized as follows:

| Financial investments                 | 2015               |                  | 2014               |                  |
|---------------------------------------|--------------------|------------------|--------------------|------------------|
|                                       | Available for sale | Held for trading | Available for sale | Held for trading |
| At the beginning of the year          | 2,203,127          | 4,980            | 1,323,516          | 7,197            |
| Additions                             | 1,314,465          | 67,036           | 888,535            | -                |
| Disposals (sale and redemption)       | (1,123,574)        | (27,180)         | (32,315)           | (2,217)          |
| Change in fair value                  | (39,822)           | 378              | 23,391             | -                |
| <b>Balance at the end of the year</b> | <b>2,354,196</b>   | <b>45,214</b>    | <b>2,203,127</b>   | <b>4,980</b>     |

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

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**6. Financial assets (continued)**

**Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities**

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as of December 31, 2015 are given in the table below:

| <b>Current Period</b>                  | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>     |
|--|------------------|----------------|----------------|------------------|
| <b>Financial assets</b>                |                  |                |                |                  |
| Financial assets held for trading      | <b>44,824</b>    | <b>44,606</b>  | -              | <b>89,430</b>    |
| Forward transactions                   | -                | 15,836         | -              | 15,836           |
| Swap transactions                      | -                | 28,770         | -              | 28,770           |
| Other                                  | 207              | -              | -              | 207              |
| Sukuk held for trading                 | 44,617           | -              | -              | 44,617           |
| Available-for-sale financial assets    | <b>2,289,057</b> | -              | -              | <b>2,289,057</b> |
| Equity securities                      | -                | -              | -              | -                |
| Government debt securities             | 1,906,949        | -              | -              | 1,906,949        |
| Other marketable securities            | 382,108          | -              | -              | 382,108          |
| <b>Financial liabilities</b>           |                  |                |                |                  |
| Financial liabilities held for trading | -                | <b>170,173</b> | -              | <b>170,173</b>   |
| Forward transactions                   | -                | 13,739         | -              | 13,739           |
| Swap transactions                      | -                | 156,434        | -              | 156,434          |
| <b>Prior Period</b>                    | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>     |
| <b>Financial assets</b>                |                  |                |                |                  |
| Financial assets held for trading      | <b>4,799</b>     | <b>43,115</b>  | -              | <b>47,914</b>    |
| Forward transactions                   | -                | 21,583         | -              | 21,583           |
| Swap transactions                      | -                | 21,532         | -              | 21,532           |
| Other                                  | 4,799            | -              | -              | 4,799            |
| Available-for-sale financial assets    | <b>2,150,356</b> | -              | -              | <b>2,150,356</b> |
| Equity securities                      | -                | -              | -              | -                |
| Government debt securities             | 1,874,398        | -              | -              | 1,874,398        |
| Other marketable securities            | 275,958          | -              | -              | 275,958          |
| Financial liabilities held for trading | -                | <b>25,885</b>  | -              | <b>25,885</b>    |
| Forward transactions                   | -                | 14,614         | -              | 14,614           |
| Swap transactions                      | -                | 11,271         | -              | 11,271           |

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2015  
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7. Due from financing activities, net

| December 31, 2015                       | Corporate and Commercial | Consumer       | Credit Cards   | Mortgage         | Total             |
|---|--------------------------|----------------|----------------|------------------|-------------------|
| Neither past due nor impaired           | 19,658,501               | 386,307        | 236,678        | 4,273,884        | 24,555,370        |
| Past due not impaired                   | 1,094,673                | 8,230          | 5,821          | 125,276          | 1,234,000         |
| Impaired                                | 426,154                  | 8,798          | 5,299          | 16,064           | 456,315           |
| <b>Total gross loans</b>                | <b>21,179,328</b>        | <b>403,335</b> | <b>247,798</b> | <b>4,415,224</b> | <b>26,245,685</b> |
| Less: Allowance for impairment on loans | (376,590)                | (5,057)        | (2,812)        | (8,760)          | (393,219)         |
| <b>Net loans (*)</b>                    | <b>20,802,738</b>        | <b>398,278</b> | <b>244,986</b> | <b>4,406,464</b> | <b>25,852,466</b> |

| December 31, 2014                       | Corporate and Commercial | Consumer       | Credit Cards   | Mortgage         | Total             |
|---|--------------------------|----------------|----------------|------------------|-------------------|
| Neither past due nor impaired           | 15,918,116               | 367,540        | 190,174        | 3,565,407        | 20,041,237        |
| Past due not impaired                   | 467,248                  | 7,017          | 4,602          | 97,766           | 576,633           |
| Impaired                                | 473,809                  | 14,192         | 11,179         | 12,476           | 511,656           |
| <b>Total gross loans</b>                | <b>16,859,173</b>        | <b>388,749</b> | <b>205,955</b> | <b>3,675,649</b> | <b>21,129,526</b> |
| Less: Allowance for impairment on loans | (397,516)                | (11,528)       | (8,895)        | (22,415)         | (440,353)         |
| <b>Net loans (*)</b>                    | <b>16,461,657</b>        | <b>377,221</b> | <b>197,060</b> | <b>3,653,234</b> | <b>20,689,173</b> |

(\*) Also includes minimum finance lease payment receivables.

|  | 2015              | 2014              |
|--|-------------------|-------------------|
| <b>Performing</b>                                    |                   |                   |
| Funds invested from profit/loss sharing accounts     | 11,284,505        | 7,749,805         |
| Funds invested from current accounts and equity      | 12,375,111        | 11,497,667        |
| Income accruals on due from financing activities (*) | 946,895           | 659,812           |
|  | <b>24,606,511</b> | <b>19,907,284</b> |
| <b>Funds in arrears</b>                              |                   |                   |
| Funds invested from profit / loss sharing accounts   | 220,568           | 233,372           |
| Funds invested from current accounts and equity      | 232,242           | 269,856           |
|  | <b>452,810</b>    | <b>503,228</b>    |
| <b>Total</b>   | <b>25,059,321</b> | <b>20,410,512</b> |
| <b>Impairment allowance</b>                          |                   |                   |
| Funds invested from profit / loss sharing accounts   | 158,078           | 164,558           |
| Funds invested from current accounts and equity      | 232,201           | 267,633           |
|  | <b>390,279</b>    | <b>432,191</b>    |
| <b>Total due from financing activities</b>           | <b>24,669,042</b> | <b>19,978,321</b> |

(\*) Also includes foreign currency evaluation differences of foreign currency indexed loans.

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**Notes to consolidated financial statements for the year ended December 31, 2015**

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**7. Due from financing activities, net (continued)**

Movement in impairment allowance for funds disbursed is as follows:

|   | December 31,<br>2015 | December 31,<br>2014 |
|---|----------------------|----------------------|
| Balance at January 1,                         | 432,191              | 369,850              |
| Charge for the period                         | 451,225              | 360,661              |
| Charges for the bank                          | 339,790              | 238,186              |
| Charge for the participation accounts         | 111,435              | 122,475              |
| Recoveries of amounts previously provided for | (169,322)            | (250,054)            |
| Reserves written off in current year          | (323,815)            | (48,266)             |
| <b>Balance at the end of the year</b>         | <b>390,279</b>       | <b>432,191</b>       |

The impairment allowance of TL 390,279 (December 31, 2014 – TL 432,191) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the cash collective reserve allowance for financing activities are as follows:

|   | 2015           | 2014          |
|---|----------------|---------------|
| Balance at beginning of year            | 83,138         | 35,701        |
| Provisions - bank                       | 17,990         | 29,155        |
| Provisions - participation accounts     | 10,328         | 18,282        |
| <b>Allowance at the end of the year</b> | <b>111,456</b> | <b>83,138</b> |

The movements in the non-cash collective reserve allowance for financing activities are as follows:

|   | 2015          | 2014          |
|---|---------------|---------------|
| Balance at beginning of year            | 12,865        | 12,206        |
| Provisions - bank                       | 1,651         | 659           |
| Provisions - participation accounts     | -             | -             |
| <b>Allowance at the end of the year</b> | <b>14,516</b> | <b>12,865</b> |

The movement in specific allowance is as follows:

|   | 2015           | 2014           |
|---|----------------|----------------|
| Balance at the beginning of the year          | 349,053        | 334,149        |
| Provisions - bank                             | 321,802        | 209,031        |
| Provisions - participation accounts           | 101,105        | 104,193        |
| Recoveries of amounts previously provided for | (169,322)      | (250,054)      |
| Reserves written off in current year          | (323,815)      | (48,266)       |
| <b>Balance at the end of the year</b>         | <b>278,823</b> | <b>349,053</b> |

The mentioned non-cash collective reserve is presented under “Due from financing activities, net” in the balance sheet.

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**8. Minimum finance lease payments receivable, net**

Minimum finance lease payments receivable (net) is as follows:

|   | 2015             | 2014           |
|---|------------------|----------------|
| Gross investment in finance leases            | 1,362,999        | 803,896        |
| Unearned finance income                       | (180,140)        | (93,310)       |
| Total impaired receivables                    | 3,505            | 8,428          |
| Impairment allowance                          | (2,940)          | (8,162)        |
| <b>Minimum lease payments receivable, net</b> | <b>1,183,424</b> | <b>710,852</b> |

Movements in the impairment allowance for leasing receivables is as follows:

|  | 2015         | 2014         |
|--|--------------|--------------|
| Balance at January 1                               | 8,162        | 7,859        |
| Charge for the period                              | 5,115        | 1,859        |
| Charges for the bank                               | 4,922        | 1,725        |
| Charge for the participation accounts              | 193          | 134          |
| Recoveries of amounts previously provided for      | (968)        | (1,489)      |
| Impairment allowance written off in current period | (9,369)      | (66)         |
| <b>Balance at the end of the period</b>            | <b>2,940</b> | <b>8,162</b> |

Gross investment in finance leases as to their maturity:

|   | 2015             | 2014            |
|---|------------------|-----------------|
| Not later than 1 year                           | 1,008,186        | 402,826         |
| Later than 1 year and not later than 5 years    | 305,026          | 357,656         |
| Later than 5 years                              | 49,787           | 43,414          |
| Non-performing receivables                      | 3,505            | 8,428           |
| <b>Minimum lease payments receivable, gross</b> | <b>1,366,504</b> | <b>812,324</b>  |
| <b>Less : Unearned finance income</b>           | <b>(180,140)</b> | <b>(93,310)</b> |
| Net investment in finance leases                | 1,186,364        | 719,014         |
| Less : Allowance for impairment                 | (2,940)          | (8,162)         |
| <b>Minimum lease payments receivable, net</b>   | <b>1,183,424</b> | <b>710,852</b>  |

As of December 31, 2015 TL 838,140 (December 31, 2014 - TL 510,636) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

|                                  | 2015      | 2014    |
|----------------------------------|-----------|---------|
| Less than 1 year (*)             | 850,194   | 361,685 |
| 1 -5 year                        | 288,658   | 317,811 |
| More than 5 years                | 47,512    | 39,518  |
| Net investment in finance leases | 1,186,364 | 719,014 |

(\*) Includes total impaired receivables amounting to TL 3,505 (December 31, 2014 – TL 8,428).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

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9. Other assets

Other assets comprise the following:

|   | 2015    | 2014    |
|---|---------|---------|
| Clearing accounts   | 260,179 | 216,890 |
| Prepaid expenses  | 36,484  | 49,465  |
| Blockage for letter of guarantee                                  | 92,259  | 10,783  |
| Receivables from banking operations                               | 9,555   | 11,164  |
| Receivables from precious metals transactions                     | -       | 22,841  |
| Amount paid for licensing and establishment of new subsidiary (*) | -       | 63,466  |
| Other   | 58,205  | 31,660  |
|   | 456,682 | 406,269 |

(\*)Required initial capital of the Bank's new subsidiary to be established in Germany and in the name of KT Bank AG is EUR 45,000,000 (full amount). The amount of EUR 22,500,000 (full amount) for compulsory paid-in capital for licensing and establishment of the bank has been transferred to the subsidiary's account in Ziraat Bank AG. That amount will be accounted under "investments in associates" line item following the completion of establishment and licensing process.

10. Construction projects, net

Construction projects mainly include the Dumankaya Project and the Güre Premises (time sharing houses) which belong to the subsidiaries of the Bank, Körfez GYO and Körfez Tatil Beldesi, respectively.

|  | 2015          | 2014          |
|--|---------------|---------------|
| Uncompleted construction projects                    | 39,802        | 48,880        |
| Kartal Project                                       |               |               |
| Cost of land   | 34,916        | 34,209        |
| Cost of project                                      | 3,389         | 2,192         |
| Kilyos Land  |               |               |
| Cost of land   | 1,497         | 1,497         |
| Güre Tesisi  | 11,157        | 10,982        |
| Completed construction projects (inventories)        | 10,982        | 10,292        |
| Transfer from investment property (Note 11)          | -             | 4,006         |
|  | 61,941        | 63,178        |
| (Less) Impairment provision for net realizable value | (9,037)       | (13,158)      |
| <b>Total construction projects, net</b>              | <b>52,904</b> | <b>50,020</b> |

11. Investment properties, net

|   | 2015          | 2014          |
|---|---------------|---------------|
| Balance at the beginning of the year                      | 26,136        | 20,815        |
| Additions   | 1,596         | 2,709         |
| Disposal  | (5,116)       | (9,268)       |
| Depreciation charge                                       | (1,062)       | (1,188)       |
| Transfer from assets held for resale (Note 12)            | 12,386        | 17,303        |
| Reversal / (charge) of provisions for investment property | (133)         | (229)         |
| Transfer to construction projects (Note 10)               | -             | (4,006)       |
| <b>Balance at the end of the year</b>                     | <b>33,807</b> | <b>26,136</b> |
| Cost  | 37,121        | 29,231        |
| Accumulated depreciation                                  | (2,457)       | (2,250)       |
| Accumulated impairment                                    | (857)         | (845)         |
| <b>Net carrying amount</b>                                | <b>33,807</b> | <b>26,136</b> |

Fair value of the investment properties is TL 57,619 (December 31, 2014 - TL 42,706) which is determined based on the valuations performed by independent qualified values on December 2015.

In the current economic conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

**Notes to consolidated financial statements for the year ended December 31, 2015**

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

**12. Assets and a disposal group held for sale**

At December 31, 2015, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 13,956 (December 31, 2014 – TL 31,486), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

|   | 2015     | 2014     |
|---|----------|----------|
| Balance at the beginning of the year      | 26,008   | 27,946   |
| Additions                                 | 13,956   | 31,486   |
| Transfer to investment property (Note 11) | (12,386) | (17,303) |
| Disposals                                 | (246)    | (16,121) |
| Balance at the end of the year            | 27,332   | 26,008   |

Gain on sale of assets held for sale amounting to TL 14,523 is included in other income in the comprehensive income statement (December 31, 2014 – TL 6,212).

**13. Property and equipment, net**

|   | Land and buildings | Furniture and office equipment (*) | Leasehold improvements | Motor vehicles | Total          |
|---|--------------------|------------------------------------|------------------------|----------------|----------------|
| At January 1, 2014  | 196,752            | 86,226                             | 38,048                 | 153            | 321,179        |
| Cost  |                    |                                    |                        |                | -              |
| Additions(*)  | 198,653            | 36,481                             | 13,771                 | 187            | 249,092        |
| Disposals   | (155,663)          | (2,036)                            | (514)                  | (29)           | (158,242)      |
| Depreciation charge for the year  | (3,534)            | (21,844)                           | (8,828)                | (70)           | (34,276)       |
| <b>At December 31, 2014, net of accumulated depreciation and impairment</b> | <b>236,208</b>     | <b>98,827</b>                      | <b>42,477</b>          | <b>241</b>     | <b>377,753</b> |
| Additions(*)  | 13,657             | 104,712                            | 33,586                 | 75             | 152,030        |
| Disposals   | (180)              | (6,723)                            | (19,542)               | -              | (26,445)       |
| Depreciation charge for the year  | (14,045)           | (48,902)                           | (9,906)                | (57)           | (72,910)       |
| <b>At December 31, 2015, net of accumulated depreciation and impairment</b> | <b>235,640</b>     | <b>147,914</b>                     | <b>46,615</b>          | <b>259</b>     | <b>430,428</b> |

(\*) TL 3,164 and TL 5,651 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2015 and 2014, respectively. There is no property and equipment that are pledged for borrowings.

|                            | Land and Buildings | Furniture and office equipment | Leasehold improvements | Motor vehicles | Total          |
|----------------------------|--------------------|--------------------------------|------------------------|----------------|----------------|
| At December 31, 2014       |                    |                                |                        |                |                |
| Cost                       | 247,795            | 178,042                        | 82,895                 | 935            | 509,667        |
| Accumulated depreciation   | (11,587)           | (79,215)                       | (40,418)               | (694)          | (131,914)      |
| Accumulated impairment     | -                  | -                              | -                      | -              | -              |
| <b>Net carrying amount</b> | <b>236,208</b>     | <b>98,827</b>                  | <b>42,477</b>          | <b>241</b>     | <b>377,753</b> |
| At December 31, 2015       |                    |                                |                        |                |                |
| Cost                       | 253,801            | 248,090                        | 76,983                 | 904            | 579,778        |
| Accumulated depreciation   | (18,161)           | (100,176)                      | (30,368)               | (645)          | (149,350)      |
| Accumulated impairment     | -                  | -                              | -                      | -              | -              |
| <b>Net carrying amount</b> | <b>235,640</b>     | <b>147,914</b>                 | <b>46,615</b>          | <b>259</b>     | <b>430,428</b> |

Notes to consolidated financial statements for the year ended December 31, 2015  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**13. Property and equipment, net (continued)**

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2015 and 2014 is as follows:

|                                | 2015          | 2014          |
|--------------------------------|---------------|---------------|
| Motor vehicles                 | 124           | 622           |
| Leasehold improvements         | 2,113         | 19,244        |
| Furniture and office equipment | 44,414        | 51,151        |
|                                | <b>46,651</b> | <b>71,017</b> |

**14. Intangible assets, net**

|   | Internally Generated Software | Other Software | Total          |
|---|-------------------------------|----------------|----------------|
| At January 1, 2014                                    | 27,600                        | 28,175         | 55,775         |
| Additions   | 11,660                        | 20,421         | 32,081         |
| Disposals   | -                             | (208)          | (208)          |
| Amortization charge for the year                      | (7,207)                       | (10,110)       | (17,317)       |
| At December 31, 2014, net of accumulated amortization | 32,053                        | 38,278         | 70,331         |
| Additions   | 78,971                        | 8,070          | 87,041         |
| Disposals   | (8,153)                       | -              | (8,153)        |
| Amortization charge for the year                      | (20,757)                      | (9,010)        | (29,767)       |
| At December 31, 2015, net of accumulated amortization | <b>82,114</b>                 | <b>37,338</b>  | <b>119,452</b> |
| At December 31, 2014                                  |                               |                |                |
| Cost (gross carrying amount)                          | 51,637                        | 63,156         | 114,793        |
| Accumulated amortization                              | (19,584)                      | (24,878)       | (44,462)       |
| Net carrying amount                                   | 32,053                        | 38,278         | 70,331         |
| At December 31, 2015                                  |                               |                |                |
| Cost (gross carrying amount)                          | 127,662                       | 65,879         | 193,541        |
| Accumulated amortization                              | (45,548)                      | (28,541)       | (74,089)       |
| Net carrying amount                                   | <b>82,114</b>                 | <b>37,338</b>  | <b>119,452</b> |

**15. Due to other financial institutions and banks, Sukuk securities issued and Subordinated loans**

Due to other financial institutions and banks as of December 31, 2015 and 2014 is as follows;

|                   | Amount in TL     |                  |
|-------------------|------------------|------------------|
| Original currency | 2015             | 2014             |
| US\$              | 4,000,516        | 4,163,680        |
| Euro              | 165,498          | 227,555          |
| TL                | 56,454           | 8,112            |
| Other             | 39,175           | -                |
| <b>Total</b>      | <b>4,261,643</b> | <b>4,399,347</b> |

As of December 31, 2015 borrowings remaining maturities of which is less than 12 months amount to TL 3,157,342 (As of December 31, 2014 – TL 3,236,329).



Notes to consolidated financial statements for the year ended December 31, 2015  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**15. Due to other financial institutions and banks, Sukuk Securities issued and subordinated loans (continued)**

The Bank provided syndicated loans, with maturity of 2 years for each loan respectively, amounting to USD 300 million and EUR 30 million in the prior period. Syndicated loans have profit share of Libor/Euribor + % 1.08 for annual maturity and profit share of Libor/Euribor + % 1.25.

Sukuk securities as of December 31, 2015 and 2014 is as follows;

|                                      | <b>Amount in TL</b> |                  |
|--------------------------------------|---------------------|------------------|
|                                      | <b>2015</b>         | <b>2014</b>      |
| <b>Sukuk certificates issued USD</b> | <b>2,481,958</b>    | <b>1,953,221</b> |
| <b>Sukuk certificates issued TL</b>  | <b>602,441</b>      | <b>240,369</b>   |
| <b>Sukuk certificates issued MYR</b> | <b>551,720</b>      | <b>-</b>         |
| <b>Total</b>                         | <b>3,636,119</b>    | <b>2,193,590</b> |

The extraction cost of the Bank's sukuks differs according to the currency of the respected sukuks. The sukuks in MYR have an average of %6, the sukuks in TRY have an average of %11 and the sukuks in USD have an average of %6 extraction costs respectively.

Subordinated loans as of December 31, 2015 and 2014 is as follows;

|   | <b>Amount in TL</b> |                |
|---|---------------------|----------------|
|   | <b>2015</b>         | <b>2014</b>    |
| <b>Subordinated loan provided by Kuwait Finance House</b> | <b>589,734</b>      | <b>464,592</b> |
| <b>Total</b>  | <b>589,734</b>      | <b>464,592</b> |

On June 29, 2011, the Bank has been provided with a subordinated loan with 10-years maturity, amounting to USD 200 million, by Kuwait Finance House. Profit share amount will be determined as the purchase price multiplied by a profit return rate equal to the applicable margin in the Murabaha period.

**16. Current and profit / loss sharing investors' accounts**

|  | <b>2015</b>       | <b>2014</b>       |
|--|-------------------|-------------------|
| <b>Current accounts:</b>   |                   |                   |
| Turkish lira   | 4,591,567         | 3,489,974         |
| Foreign currency   | 4,726,395         | 3,157,040         |
|  | <b>9,317,962</b>  | <b>6,647,014</b>  |
| <b>Profit/loss sharing investors' accounts:</b>  |                   |                   |
| Turkish lira   | 9,925,400         | 8,648,272         |
| Foreign currency   | 8,822,986         | 6,801,515         |
|  | <b>18,748,386</b> | <b>15,449,787</b> |
| <b>Blocked accounts:</b>   |                   |                   |
| Turkish lira   | 13,977            | 51,121            |
| Foreign currency   | 5,123             | 16,291            |
|  | <b>19,100</b>     | <b>67,412</b>     |
| <b>Total current accounts and profit/loss investors' accounts</b>                      | <b>28,085,448</b> | <b>22,164,213</b> |
| <b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b> | <b>59,843</b>     | <b>51,630</b>     |
| <b>Total current accounts and profit/loss sharing investors' accounts</b>              | <b>28,145,291</b> | <b>22,215,843</b> |

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**16. Current and profit / loss sharing investors' accounts (continued)**

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

|                          | 2015 (TL)         |                   |                   | 2014 (TL)         |                  |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|                          | TL                | Foreign currency  | Total             | TL                | Foreign currency | Total             |
| Up to 1 month            | 7,583,090         | 6,666,059         | 14,249,149        | 6,197,430         | 4,665,808        | 10,863,238        |
| From 1 month to 3 months | 5,693,101         | 5,213,287         | 10,906,388        | 4,609,009         | 3,804,784        | 8,413,793         |
| From 3 months to 1 year  | 903,788           | 1,214,403         | 2,118,191         | 987,430           | 1,075,389        | 2,062,819         |
| Over one year            | 350,965           | 460,755           | 811,720           | 395,498           | 428,865          | 824,363           |
|                          | <b>14,530,944</b> | <b>13,554,504</b> | <b>28,085,448</b> | <b>12,189,367</b> | <b>9,974,846</b> | <b>22,164,213</b> |

At December 31, 2015 and 2014, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

|  | 2015                    |                   | 2014                    |                  |
|--|-------------------------|-------------------|-------------------------|------------------|
|  | Foreign currency (full) | TL equivalent     | Foreign currency (full) | TL equivalent    |
| Current and blocked accounts:            |                         |                   |                         |                  |
| US\$                                     | 1,101,182,762           | 3,201,799         | 726,237,871             | 1,684,073        |
| Euro                                     | 258,105,803             | 820,157           | 218,292,622             | 615,738          |
| Precious metals                          | -                       | 585,998           | -                       | 753,391          |
| Other                                    | -                       | 123,564           | -                       | 120,129          |
|  |                         | <b>4,731,518</b>  |                         | <b>3,173,331</b> |
| Profit/loss sharing investors' accounts: |                         |                   |                         |                  |
| US\$                                     | 2,130,308,846           | 6,194,086         | 1,693,296,391           | 3,926,585        |
| Euro                                     | 588,346,866             | 1,869,531         | 609,323,572             | 1,718,719        |
| Precious metals                          | -                       | 759,369           | -                       | 1,156,211        |
|  |                         | <b>8,822,986</b>  |                         | <b>6,801,515</b> |
|  |                         | <b>13,554,504</b> |                         | <b>9,974,846</b> |

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**17. Income taxes**

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal years ending on December 31, 2015, and 2014 is 20%. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or classified under equity for five years in accordance with the New Corporate Tax Law.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2007 - 2012), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

|   | 2015           | 2014          |
|---|----------------|---------------|
| Current tax expense                     | 159,529        | 114,821       |
| Prepaid tax (-)                         | (123,057)      | (89,867)      |
| <b>Income taxes payable</b>             | <b>36,472</b>  | <b>24,954</b> |
|   | 2015           | 2014          |
| Current tax expense                     | 159,394        | 114,821       |
| Deferred tax credit/(charge)            | (43,062)       | (15,117)      |
| <b>Total income tax (charge)/credit</b> | <b>116,332</b> | <b>99,704</b> |

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**

**Notes to consolidated financial statements for the year ended December 31, 2015**

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

**17. Income taxes (continued)**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2015 and 2014 is as follows:

|   | 2015           | 2014          |
|---|----------------|---------------|
| Profit before income tax from continuing operations         | 616,578        | 557,740       |
| Gain/(loss) before tax from a discontinued operation        | -              | -             |
| At Turkish statutory income tax rate of 20%                 | 123,316        | 111,548       |
| Effect of income not subject to tax                         | (6,104)        | (12,591)      |
| Effect of expenditure not allowable for income tax purposes | (880)          | 747           |
| <b>Income tax charge</b>                                    | <b>116,332</b> | <b>99,704</b> |

Deferred tax as of December 31, 2015 and 2014 is attributable to the following items:

|   | Deferred tax assets/(liabilities) |                 |
|---|-----------------------------------|-----------------|
|   | 2015                              | 2014            |
| Deferred income   | 27,131                            | 24,356          |
| Derivative accrual  | 21,827                            | -               |
| Provision for impairment in due from financing activities   | 6,976                             | 3,845           |
| Impairment provision for subsidiaries, fixed assets and assets held for sale                                    | 26,394                            | 16,730          |
| Bonus accrual of personnel  | 11,646                            | 10,172          |
| Deferred tax accounted under shareholders' equity   | 7,578                             | -               |
| Reserve for employee termination benefits   | 5,913                             | 4,024           |
| Effect of precious metals valuation   | 14,440                            | 5,148           |
| Effect of other temporary differences   | 1,696                             | 825             |
| <b>Deferred tax assets</b>  | <b>123,601</b>                    | <b>65,100</b>   |
| Derivative accrual  | -                                 | (3,313)         |
| Provision for non cash loans and check commitments  | (15,103)                          | (10,345)        |
| Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items | (6,852)                           | (5,896)         |
| Deferred tax accounted under shareholders' equity   | -                                 | (908)           |
| Accounting for finance leases   | (1)                               | (685)           |
| Effect of other temporary differences   | (3,176)                           | -               |
| <b>Deferred tax liabilities</b>   | <b>(25,131)</b>                   | <b>(21,147)</b> |
| <b>Deferred tax asset – net</b>   | <b>98,469</b>                     | <b>43,953</b>   |

Movement of net deferred tax asset is as follows:

|   | 2015          | 2014          |
|---|---------------|---------------|
| Balance at the beginning of the year                        | 43,953        | 32,306        |
| Deferred tax (charge)/credit recognized in income statement | 43,062        | 15,117        |
| Deferred tax (charge)/credit recognized in equity           | 11,454        | (3,470)       |
| <b>Balance at the end of the year</b>                       | <b>98,469</b> | <b>43,953</b> |

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries****Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)**18. Employee benefit obligations**

|   | 2015           | 2014          |
|---|----------------|---------------|
| Personnel bonus accrual                   | 49,677         | 48,600        |
| Employee termination benefits             | 57,228         | 44,256        |
| <b>Total employee benefit obligations</b> | <b>106,905</b> | <b>92,856</b> |

The movement in reserve for personnel bonus accrual is as follows:

|                                       | 2015          | 2014          |
|---------------------------------------|---------------|---------------|
| Balance at January 1                  | 48,600        | 36,700        |
| Utilized/paid                         | (48,600)      | (36,700)      |
| Charge for the year                   | 49,677        | 48,600        |
| <b>Balance at the end of the year</b> | <b>49,677</b> | <b>48,600</b> |

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

|                                       | 2015          | 2014          |
|---------------------------------------|---------------|---------------|
| Balance at January 1                  | 44,257        | 30,243        |
| Utilized/paid                         | (3,620)       | (2,818)       |
| Service cost                          | 8,342         | 5,559         |
| Interest cost                         | 3,704         | 2,480         |
| Actuarial loss (*)                    | 4,545         | 8,792         |
| <b>Balance at the end of the year</b> | <b>57,228</b> | <b>44,256</b> |

(\*) Retirement pay liability arising from current period and amounting TL 3,151 (2014: TL 6,451) is an actuarial loss amount and deferred tax amounting to TL 630 (2014: TL 1,290) related with the retirement pay liability is accounted under Statement of other Comprehensive Income.

***Reserve for employee termination benefits***

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.1 and TL 3.1 at December 31, 2015 and 2014, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2015 and 2014, the Group reflected a liability calculated using the actuarial valuation by independent actuary and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The amount payable consists of one month's salary limited to a maximum of TL 3,828.37 (2014: TL 3,438.22) for each period of service at 31 December 2015.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is rearranged every six months, is calculated over TL 4,092.53 that is effective commencing on January 1, 2016 (January 1, 2015: TL 3,541.37).

Notes to consolidated financial statements for the year ended December 31, 2015

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

18. Employee benefit obligations (continued)

The following actuarial assumptions were used in the calculation of the total liability:

|   | 2015 | 2014 |
|---|------|------|
| Discount rate (%)                           | 3.19 | 2.24 |
| Expected salary / ceiling increase rate (%) | 8.4  | 7.4  |
| Anticipated turnover rate (%)               | 89   | 89   |

19. Other liabilities and provisions

|  | 2015           | 2014           |
|--|----------------|----------------|
| Clearing accounts                        | 239,021        | 194,704        |
| Withholding tax and other tax payables   | 46,929         | 39,674         |
| Payables to exporters and suppliers      | 28,453         | 24,198         |
| Security premium for participation funds | 15,759         | 11,794         |
| Deferred revenue for non cash loans      | 10,508         | 10,603         |
| Deductions on resource utilization fund  | 1,593          | 1,395          |
| Other provisions and liabilities         | 159,761        | 98,504         |
| <b>Total other liabilities</b>           | <b>502,024</b> | <b>380,872</b> |

20. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of foreign currency and precious metals forward and swap transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

| December 31, 2015                   |                   |                        |  |                  |                  |                |                  |                  |
|-------------------------------------|-------------------|------------------------|--|------------------|------------------|----------------|------------------|------------------|
|                                     | Fair value assets | Fair value liabilities | Notional amount in Turkish Lira equivalent | Up to 1 months   | 1 to 3 months    | 3 to 6 months  | 6 to 12 months   | Over 1 year      |
| <b>Derivatives held for trading</b> |                   |                        |  |                  |                  |                |                  |                  |
| Inflows                             | 44,606            | -                      | 6,800,047                                  | 2,117,972        | 2,701,399        | 414,515        | 851,234          | 714,927          |
| Outflows                            | -                 | 170,173                | 6,919,324                                  | 2,113,931        | 2,715,461        | 413,731        | 852,293          | 823,908          |
|                                     | <b>44,606</b>     | <b>170,173</b>         | <b>13,719,371</b>                          | <b>4,231,903</b> | <b>5,416,860</b> | <b>828,246</b> | <b>1,703,527</b> | <b>1,538,835</b> |
| December 31, 2014                   |                   |                        |  |                  |                  |                |                  |                  |
|                                     | Fair value assets | Fair value liabilities | Notional amount in Turkish Lira equivalent | Up to 1 months   | 1 to 3 months    | 3 to 6 months  | 6 to 12 months   | Over 1 year      |
| <b>Derivatives held for trading</b> |                   |                        |  |                  |                  |                |                  |                  |
| Inflows                             | 43,115            | -                      | 4,576,673                                  | 2,890,130        | 1,145,227        | 197,091        | 235,411          | 108,814          |
| Outflows                            | -                 | 25,885                 | 4,560,487                                  | 2,890,064        | 1,127,355        | 196,739        | 233,292          | 113,038          |
|                                     | <b>43,115</b>     | <b>25,885</b>          | <b>9,137,160</b>                           | <b>5,780,194</b> | <b>2,272,582</b> | <b>393,830</b> | <b>468,703</b>   | <b>221,852</b>   |

Notes to consolidated financial statements for the year ended December 31, 2015

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

21. Share capital

|   | 2015          | 2014          |
|---|---------------|---------------|
| Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding. | 2,527 million | 2,287 million |

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

|                                       |               | 2015      |               | 2014      |
|---------------------------------------|---------------|-----------|---------------|-----------|
|                                       | Number        | TL        | Number        | TL        |
| At January 1                          | 2,287,005,000 | 2,287,005 | 1,700,000,000 | 1,700,000 |
| Shares issued in                      |               |           |               |           |
| - bonus shares from retained earnings | 240,000,000   | 240,000   | 230,000,000   | 230,000   |
| - cash                                | -             | -         | 360,000,000   | 360,000   |
| -other                                | 317,000       | 317       | (2,995,000)   | (2,995)   |
| At year end                           | 2,527,322,000 | 2,527,322 | 2,287,005,000 | 2,287,005 |

The Bank has increased its share capital on March 31, 2015. The share capital increase was funded from the retained earnings amounting to TL 240,000 (2014 - TL 230,000) and cash amounting to TL - (2014 – 360,000).

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2015 and 2014, the composition of shareholders and their respective % of ownership can be summarized as follows:

|  |           | 2015 |           | 2014 |
|--|-----------|------|-----------|------|
|  | Amount    | %    | Amount    | %    |
| Kuwait Finance House                               | 1,575,097 | 62.3 | 1,425,325 | 62.3 |
| Directorate of Vakıf Foundations, Turkey           | 473,716   | 18.7 | 428,671   | 18.7 |
| The Public Institution for Social Security, Kuwait | 227,757   | 9    | 206,100   | 9    |
| Islamic Development Bank                           | 227,757   | 9    | 206,100   | 9    |
| Other  | 22,995    | 1    | 20,809    | 1    |
| Total share capital                                | 2,527,322 | 100  | 2,287,005 | 100  |

22. Legal reserves, retained earnings, dividends paid and proposed and other reserves

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 38,923 (2014 – TL 20,517 from the profit of the year 2014).

|                     | 2015   | 2014   |
|---------------------|--------|--------|
| Ordinary shares     |        |        |
| Amount              | 38,923 | 20,517 |
| TL (full) per share | 0.009  | 0.010  |

**Notes to consolidated financial statements for the year ended December 31, 2015**  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**22. Legal reserves, retained earnings, dividends paid and proposed and other reserves (continued)**

**Other reserves**

The Bank bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı on September 23, 2011, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid.

**23. Earnings per share**

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2015 and 2014.

The following reflects the income and per share data used in the basic earnings per share computations:

|   | 2015      | 2014      |
|---|-----------|-----------|
| Net profit attributable to continuing operations of the Bank for basic earnings per share   | 500,246   | 458,036   |
| Net profit/(loss) attributable to discontinued operations for basic earnings per share      | -         | -         |
| Net profit attributable to ordinary equity holders of the Bank for basic earnings per share | 500,246   | 458,036   |
| Weighted average number of ordinary shares for basic earnings per share (thousands)         | 2,463,224 | 2,002,348 |
| Basic earnings per share (expressed in full TL per share)                                   | 0.203     | 0.2287    |



Notes to consolidated financial statements for the year ended December 31, 2015

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

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.24% (December 31, 2014 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2014 - 18.7%), 9.0% (December 31, 2014 - 9.0%) and 9.0% (December 31, 2014 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2015 and 2014 and transactions have been entered into with related parties during the years ended:

i) Balances with financial institutions and due from financing activities:

|                                     |               | 2015                       |                  | 2014                       |               |
|-------------------------------------|---------------|----------------------------|------------------|----------------------------|---------------|
|                                     |               | Foreign<br>currency (full) | TL<br>equivalent | Foreign<br>currency (full) | TL equivalent |
| Kuwait Finance House <sup>(1)</sup> | Kuwaiti Dinar | 145,312                    | 1,384            | 29,911                     | 236           |
|                                     | XAU (gr.)     | 175,679                    | 17,546           | 138,497                    | 12,387        |
| KFH – Bahrain                       | BHD           | 37,854                     | 293              | 38,846                     | 239           |
|                                     | US\$          | 43,393                     | 126              | 71,488                     | 166           |
| Auto Land A.S.                      | TL            | -                          | 75,138           | -                          | 37,442        |
| Kuwait finance Malaysia             | US\$          | 5,063                      | 15               | 4,637                      | 11            |
|                                     | XAU(gr)       | 4,001                      | 400              | 51                         | 5             |
| Other related parties               | -             | -                          | 52,486           | -                          | 42,805        |
|                                     |               |                            | 147,388          |                            | 93,291        |

ii) Due to other financial institutions and banks:

|  |      | 2015                       |               | 2014                       |               |
|--|------|----------------------------|---------------|----------------------------|---------------|
|  |      | Foreign<br>currency (full) | TL equivalent | Foreign<br>currency (full) | TL equivalent |
| Public Institute for Social Securities KW <sup>(1)</sup> | US\$ | 159,674,833                | 464,270       | 158,703,817                | 368,018       |
| Kuwait Finance House <sup>(1)</sup>                      | US\$ | 527,070,267                | 1,532,508     | 755,118,232                | 1,751,044     |
| Kuwait Finance House, Bahrain                            | EUR  | -                          | -             | 4,159,118                  | 11,732        |
| Islamic Development Bank                                 | US\$ | 7,090,334                  | 20,618        | 19,127,469                 | 44,354        |
| ALAFCO   | US\$ | 57,346,692                 | 166,742       | -                          | -             |
|  |      |                            | 2,184,138     |                            | 2,175,148     |

iii) Profit/loss sharing investors' and current accounts:

|  |           | 2015                       |               | 2014                       |               |
|--|-----------|----------------------------|---------------|----------------------------|---------------|
|  |           | Foreign<br>currency (full) | TL equivalent | Foreign<br>currency (full) | TL equivalent |
| Kuwait Finance House <sup>(1)</sup>                      | US\$      | 3,286,513                  | 9,556         | 2,264,867                  | 5,252         |
| Kuwait Finance House <sup>(1)</sup>                      | TL        | -                          | 3,615         | -                          | 2,484         |
| Kuwait Finance House <sup>(1)</sup>                      | XAU (gr.) | -                          | -             | -                          | -             |
| Islamic Development Bank <sup>(1)</sup>                  | TL        | -                          | 1,046         | -                          | 619           |
| Kuwait Finance Malaysia                                  | XAU (gr.) | 988,647                    | 98,740        | 1,128,475                  | 100,931       |
| Kuwait Finance House, Bahrain                            | US\$      | 1,229                      | 4             | 1,216                      | 3             |
| Directorate of Vakıf Foundations, Turkey <sup>(1)</sup>  | TL        | -                          | 27,503        | -                          | 21,952        |
| Neova Sigorta AS <sup>(*)</sup>                          | TL        | -                          | 13,703        | -                          | 80,480        |
|  | US\$      | 1,977                      | 6             | 3,875                      | 9             |
|  | EUR       | 32,553                     | 103           | 355                        | 1             |
| Public Institute for Social Securities KW <sup>(1)</sup> | US\$      | 162,563                    | 473           | 160,852                    | 373           |
|  |           |                            | 154,749       |                            | 212,104       |

(\*) Determined as related party as the Company is under the common control of the ultimate parent.

(1) Shareholders.

# Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

## Notes to consolidated financial statements for the year ended December 31, 2015 (Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### 24. Related party disclosures (continued)

#### iv) Profit shares distributed:

|  |      | 2015                       |                  | 2014                       |                  |
|--|------|----------------------------|------------------|----------------------------|------------------|
|  |      | Foreign<br>currency (full) | TL<br>equivalent | Foreign<br>currency (full) | TL<br>equivalent |
| Kuwait Finance House <sup>(1)</sup>                      | US\$ | 13,747,471                 | 37,378           | 19,028,496                 | 41,602           |
| Islamic Development Bank <sup>(1)</sup>                  | US\$ | 129,832                    | 353              | 219091.616                 | 479              |
| Directorate of Vakıf Foundations, Turkey <sup>(1)</sup>  | TL   | -                          | 2,174            | -                          | 1,446            |
| Neova Sigorta AS <sup>(*)</sup>                          | TL   | -                          | 6,599            | -                          | 3,600            |
| Public Institute for Social Securities KW <sup>(1)</sup> | US\$ | 3,153,182                  | 8,573            | 4,699,264                  | 10,274           |
|  |      |                            | 55,077           |                            | 57,402           |

(\*) Determined as related party as the Company is under the common control of the ultimate parent.

(1) Shareholders.

#### v) Non cash credits issued:

|                                     |      | 2015                       |                  | 2014                       |                  |
|-------------------------------------|------|----------------------------|------------------|----------------------------|------------------|
|                                     |      | Foreign<br>currency (full) | TL<br>equivalent | Foreign<br>currency (full) | TL<br>equivalent |
| Kuwait Finance House <sup>(1)</sup> | US\$ | 4,657,800                  | 13,543           | 5,956,021                  | 13,811           |
| Kuwait Finance Malaysia             | US\$ | 40,000                     | 116              | 40,000                     | 93               |
| Other related parties               | TL   |                            | 615              |                            | 25,657           |
|                                     |      |                            | 14,274           |                            | 39,561           |

(1) Shareholders.

As of December 31, 2015 no provisions have been recognized in respect of loans given to related parties (December 31, 2014 - nil).

### Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 18,085 during the year ended December 31, 2015 (December 31, 2014 – TL 14,112)

The key management personnel of the Bank are as follows ;

|                                   |   |
|-----------------------------------|---|
| Hamad Abdulmohsen AL MARZOUQ      | B.O.D. Chairman                                   |
| Adnan ERTEM                       | B.O.D. Vice Chairman and Audit Committee Chairman |
| Nadir ALPASLAN                    | B.O.D. Member                                     |
| Khaled Nasser Abdulaziz AL FOUZAN | B.O.D. Member                                     |
| Fawaz KH E AL SALEH               | B.O.D. Member                                     |
| Mazin S.A.S AL NAHEDH             | B.O.D. Member                                     |
| Ahmed S. AL KHARJI                | B.O.D. Member and Audit Committee                 |
| Mohamad Al-MİDANI                 | B.O.D. Member and Audit Committee                 |
| Ufuk UYAN                         | B.O.D. Member - Chief Executive Officer           |

Key management includes 19 other officers together with the above B.O.D. members.

Notes to consolidated financial statements for the year ended December 31, 2015  
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

25. Fees and commission income and expense

|   | 2015           | 2014           |
|---|----------------|----------------|
| <b>Fees and commission income</b>         |                |                |
| Commissions on loans                      | 153,966        | 136,341        |
| Commission income from commitments        | 88,364         | 79,323         |
| Communication expense charges             | 429            | 584            |
| POS commission income                     | 36,962         | 30,582         |
| Income from insurance & agency activities | 19,769         | 16,281         |
| Credit card fees and commissions          | 31,284         | 24,213         |
| Money transfer commissions                | 25,011         | 20,748         |
| Import letter of credit commissions       | 6,443          | 5,515          |
| Commissions from checks and notes         | 12,371         | 12,123         |
| Other                                     | 38,541         | 42,044         |
| <b>Total</b>                              | <b>413,140</b> | <b>367,754</b> |

|  | 2015           | 2014          |
|--|----------------|---------------|
| <b>Fees and commission expense</b>                 |                |               |
| Credit card machine and fees paid for credit cards | 47,861         | 41,412        |
| Brokerage fees on borrowings                       | 23,511         | 20,840        |
| Correspondent bank fees                            | 11,974         | 8,677         |
| Fees for funds borrowed from banks and OFI         | 23,912         | 13,692        |
| Money transfer commissions                         | 7,249          | 6,062         |
| Other  | 30,630         | 9,137         |
| <b>Total</b>                                       | <b>145,137</b> | <b>99,820</b> |

26. Salaries and employee benefits

|   | 2015           | 2014           |
|---|----------------|----------------|
| <b>Staff costs</b>                          |                |                |
| Wages and salaries                          | 321,121        | 253,094        |
| Bonus                                       | 55,702         | 50,401         |
| Social security premiums                    | 67,116         | 58,530         |
| Other fringe benefits                       | 41,720         | 37,358         |
| Health expenses                             | 13,553         | 10,977         |
| Provision for employee termination benefits | 13,102         | 9,992          |
| Other                                       | 16,686         | 18,438         |
| <b>Total</b>                                | <b>529,000</b> | <b>438,790</b> |

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries****Notes to consolidated financial statements for the year ended December 31, 2015**

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

**27. Other expenses**

|   | 2015           | 2014           |
|---|----------------|----------------|
| Impairment on investment property (Note 11) | (133)          | (229)          |
| Impairment on asset held for sale (Note 12) | -              | -              |
| <b>Impairment charges/(reversal)</b>        | <b>(133)</b>   | <b>(229)</b>   |
| Insurance fund premium expense              | 28,852         | 43,442         |
| Professional fees                           | 27,400         | 32,086         |
| Advertising expenses                        | 13,800         | 16,184         |
| Communication                               | 23,656         | 18,190         |
| Cleaning expense                            | 21,650         | 17,392         |
| Repair and maintenance expenses             | 18,150         | 14,166         |
| Energy expenses                             | 11,558         | 9,468          |
| Grants and donations                        | 7,247          | 7,201          |
| Subscription and membership expenses        | 5,826          | 4,867          |
| Travel and representation expenses          | 4,438          | 4,435          |
| Non taxable income                          | 4,690          | 3,721          |
| Stationery and publishing expenses          | 4,216          | 4,212          |
| Insurance expenses                          | 2,004          | 1,692          |
| Loss from sale of assets                    | 782            | 225            |
| Other                                       | 9,039          | 29,904         |
| <b>Other expenses</b>                       | <b>183,308</b> | <b>207,185</b> |
| <b>Total</b>                                | <b>183,175</b> | <b>206,956</b> |

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements for the year ended December 31, 2015

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#### 28. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2015 and 2014

|   | 2015              | 2014              |
|---|-------------------|-------------------|
| Letters of guarantee issued by the Bank | 7,340,216         | 6,893,972         |
| Letters of credit                       | 1,029,264         | 922,530           |
| Commitments                             | 2,792,914         | 2,599,619         |
| Acceptance credits                      | 84,108            | 59,790            |
| Other guarantees                        | 503,290           | 372,420           |
| <b>Total</b>                            | <b>11,749,792</b> | <b>10,848,183</b> |

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The allocation of operational lease obligations due to rent agreements of branches within lease periods as of December 31, 2015 and 2014 is as follows:

|   | 2015           | 2014           |
|---|----------------|----------------|
| Within one year                             | 14             | 64             |
| After one year but not more than five years | 229,199        | 171,657        |
| More than five years                        | 438,559        | 338,129        |
|   | <b>667,772</b> | <b>509,850</b> |

#### Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL - and TL - as of December 31, 2015 and 2014 respectively. As of December 31, 2015, the amount of the checks and bonds in collection are TL 5,180,693 (December 31, 2014 – TL 4,335,906) and TL 951,857 (December 31, 2014 – TL 740,175) respectively.

**Notes to consolidated financial statements for the year ended December 31, 2015**

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**29. Financial risk management**

**Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

**Organization of the risk management function**

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee. Audit Committee is responsible for identifying, measuring, monitoring and reporting Market, Credit, Liquidity and Operational Risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

**Internal systems and risk management policies**

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management and Treasury Middle Office Department. The primary objectives of the Risk Management and Treasury Middle Office Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management and Treasury Middle Office Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and the Risk Management and Treasury Middle Office Department.

**29. Financial risk management (continued)**

**Board of directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

**Audit committee**

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

**Risk management and treasury middle office department**

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks,
- Business Continuity Plan, Process and Procedures.

**Board of inspectors and internal audit**

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

**Notes to consolidated financial statements for the year ended December 31, 2015**  
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**29. Financial risk management (continued)**

**Credit risk**

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

**Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

| <b>Gross maximum exposure</b>  | <b>2015</b>       | <b>2014</b>       |
|--|-------------------|-------------------|
| Cash and balances with Central Bank (including reserve deposits, excluding cash on hand) | 5,357,107         | 4,443,358         |
| Deposit with banks and financial institutions  | 4,753,336         | 3,218,932         |
| Due from financing activities  | 24,669,042        | 19,978,321        |
| Minimum financial lease payments receivable  | 1,183,424         | 710,852           |
| Financial assets-available for sale  | 2,354,196         | 2,203,127         |
| Financial assets-held for trading  | 45,214            | 4,980             |
| Other assets   | 456,682           | 406,269           |
| Derivative financial instruments   | 44,606            | 43,115            |
| <b>Total</b>   | <b>38,863,607</b> | <b>31,008,954</b> |
| Contingent liabilities   | 8,369,480         | 7,816,502         |
| Other guarantees   | 587,398           | 432,210           |
| Commitments  | 2,792,914         | 2,599,619         |
| <b>Total</b>   | <b>11,749,792</b> | <b>10,848,331</b> |
| <b>Total credit risk exposure</b>  | <b>50,613,399</b> | <b>41,857,285</b> |

**Risk concentrations of the maximum exposure to credit risk**

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2015 was TL 287,069 (December 31, 2014 - TL 102,267) and non-cash credit exposure as of December 31, 2015 was TL 196,518 (December 31, 2014 - TL 176,177) before taking account of collateral or other credit enhancements.



Notes to consolidated financial statements for the year ended December 31, 2015

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

**29. Financial risk management (continued)**

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

|                                 | 2015              | 2014              |
|---------------------------------|-------------------|-------------------|
|                                 | Gross exposure    | Gross exposure    |
| Financial services              | 15,575,944        | 12,787,793        |
| Construction and materials      | 11,599,349        | 9,838,050         |
| General retailers               | 7,294,418         | 6,079,455         |
| Manufacturing                   | 4,782,495         | 3,901,379         |
| Electricity                     | 1,774,953         | 1,169,057         |
| Health care and social services | 1,380,532         | 1,119,171         |
| Food and beverages              | 1,159,869         | 1,051,112         |
| Mining operations               | 413,582           | 447,244           |
| Forestry                        | 203,021           | 148,379           |
| Telecommunications              | 214,553           | 180,592           |
| Real estate                     | 374,796           | 229,124           |
| Other                           | 5,839,887         | 4,905,929         |
| <b>Total</b>                    | <b>50,613,399</b> | <b>41,857,285</b> |

**Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

**Credit quality per class of financial assets**

Rating and scoring models for Corporate/Commercial/SME portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models are shown the table below as of 31 December 2015.

|                | Cash Loans | Non-Cash Loans | Total |
|----------------|------------|----------------|-------|
| High Quality   | 31%        | 64%            | 39%   |
| Medium Quality | 22%        | 13%            | 20%   |
| Average        | 17%        | 10%            | 15%   |
| Below Average  | 3%         | 1%             | 3%    |
| Unrated        | 27%        | 12%            | 23%   |

Notes to consolidated financial statements for the year ended December 31, 2015  
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29. Financial risk management (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

| 2015                                  | Less than<br>30 days | 31 to<br>60 days | 61 to 90<br>days | More than<br>91 days | Total            |
|---------------------------------------|----------------------|------------------|------------------|----------------------|------------------|
| <b>Due from financing activities:</b> |                      |                  |                  |                      |                  |
| Corporate lending                     | 695,566              | 204,218          | 193,739          | -                    | 1,093,523        |
| Consumer lending                      | 26,109               | 69,528           | 38,943           | -                    | 134,510          |
| Credit cards                          | 4,337                | 1,154            | 476              | -                    | 5,967            |
| <b>Total</b>                          | <b>726,012</b>       | <b>274,900</b>   | <b>233,088</b>   | <b>-</b>             | <b>1,234,000</b> |
| 2014                                  | Less than<br>30 days | 31 to<br>60 days | 61 to 90 days    | More than<br>91 days | Total            |
| <b>Due from financing activities:</b> |                      |                  |                  |                      |                  |
| Corporate lending                     | 256,814              | 115,240          | 95,047           | -                    | 467,101          |
| Consumer lending                      | 30,685               | 44,882           | 29,373           | -                    | 104,940          |
| Credit cards                          | 3,532                | 836              | 424              | -                    | 4,792            |
| <b>Total</b>                          | <b>291,031</b>       | <b>160,958</b>   | <b>124,884</b>   | <b>-</b>             | <b>576,833</b>   |

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2015 and 2014 comprise of blocked accounts, property and machinery pledges.

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

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**29. Financial risk management (continued)**

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Maturity analysis of assets and liabilities as of December 31, 2015

| 31 December 2015                                      | Less than 3 months | 3 to 12 months   | 1 to 5 years     | More than 5 years | Unallocated      | Total             |
|---|--------------------|------------------|------------------|-------------------|------------------|-------------------|
| Cash and balances with the Central Bank               | 1,970,359          | -                | -                | -                 | -                | 1,970,359         |
| Balances with other banks and financial institutions  | 4,721,373          | 10,156           | 21,807           | -                 | -                | 4,753,336         |
| Reserve deposits at the Central Bank                  | 5,141,295          | -                | -                | -                 | -                | 5,141,295         |
| Financial assets – held for trading                   | 65,102             | 24,328           | -                | 390               | -                | 89,820            |
| <i>Derivative financial instruments</i>               | 20,278             | 24,328           | -                | -                 | -                | 44,606            |
| <i>Share Certificates</i>                             | -                  | -                | -                | 390               | -                | 390               |
| <i>Precious Metal Fund</i>                            | 207                | -                | -                | -                 | -                | 207               |
| <i>Sukuk held for trading</i>                         | 44,617             | -                | -                | -                 | -                | 44,617            |
| Financial assets – available-for-sale                 | 1,400,586          | 73,131           | 713,999          | 96,921            | 69,559           | 2,354,196         |
| Due from financing activities, net                    | 7,071,967          | 8,704,635        | 8,724,171        | 1,225,785         | 125,908          | 25,852,466        |
| Precious Metals                                       | 471,703            | -                | -                | -                 | -                | 471,703           |
| Other assets  | -                  | -                | -                | -                 | 456,682          | 456,682           |
| Construction projects, net                            | -                  | -                | -                | -                 | 52,904           | 52,904            |
| Joint venture   | -                  | -                | -                | -                 | 8,378            | 8,378             |
| Investment properties, net                            | -                  | -                | 33,807           | -                 | -                | 33,807            |
| Property and equipment, net                           | -                  | -                | -                | -                 | 430,428          | 430,428           |
| Intangible assets, net                                | -                  | -                | -                | -                 | 119,452          | 119,452           |
| Deferred tax assets                                   | -                  | -                | -                | -                 | 98,469           | 98,469            |
| Assets and a disposal group held for sale             | 27,332             | -                | -                | -                 | -                | 27,332            |
| <b>Total assets</b>                                   | <b>20,869,717</b>  | <b>8,812,250</b> | <b>9,493,784</b> | <b>1,323,096</b>  | <b>1,361,780</b> | <b>41,860,627</b> |
| Due to other financial institutions and banks         | 982,171            | 2,175,171        | 1,114,137        | -                 | -                | 4,261,643         |
| Sukuk securities issued                               | 415,511            | 1,230,616        | 2,005,929        | -                 | -                | 3,636,119         |
| Subordinated Loans                                    | -                  | -                | -                | 589,734           | -                | 589,734           |
| Money market balances                                 | 711,542            | -                | -                | -                 | -                | 711,542           |
| Current and profit / loss sharing investors' accounts | 27,064,925         | 1,032,361        | 9,236            | -                 | 38,769           | 28,145,291        |
| Derivative financial instruments                      | 24,233             | 47,269           | 98,671           | -                 | -                | 170,173           |
| Employee benefit obligations                          | -                  | 48,481           | -                | -                 | 58,424           | 106,905           |
| Income taxes payable                                  | -                  | 36,472           | -                | -                 | -                | 36,472            |
| Other liabilities and provisions                      | -                  | -                | -                | -                 | 476,251          | 502,024           |
| <b>Liabilities</b>                                    | <b>29,172,609</b>  | <b>4,570,370</b> | <b>3,227,973</b> | <b>589,734</b>    | <b>599,217</b>   | <b>38,159,903</b> |
| <b>Net</b>  | <b>(8,302,892)</b> | <b>4,241,880</b> | <b>6,265,811</b> | <b>733,362</b>    | <b>762,563</b>   | <b>3,700,724</b>  |

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

29. Financial risk management (continued)

Maturity analysis of assets and liabilities as of December 31, 2014.

| 31 December 2014                                      | Less than 3 months | 3 to 12 months   | 1 to 5 years     | More than 5 years | Unallocated      | Total             |
|---|--------------------|------------------|------------------|-------------------|------------------|-------------------|
| Cash and balances with the Central Bank               | 1,127,568          | -                | -                | -                 | -                | 1,127,568         |
| Balances with other banks and financial institutions  | 3,187,412          | 24,563           | 6,957            | -                 | -                | 3,218,932         |
| Reserve deposits at the Central Bank                  | 4,155,609          | -                | -                | -                 | -                | 4,155,609         |
| Financial assets – held for trading                   | 42,495             | 5,419            | -                | 181               | -                | 48,095            |
| <i>Derivative financial instruments</i>               | 37,696             | 5,419            | -                | -                 | -                | 43,115            |
| <i>Share Certificates</i>                             | -                  | -                | -                | 181               | -                | 181               |
| <i>Gold Fund</i>                                      | 4,799              | -                | -                | -                 | -                | 4,799             |
| Financial assets – available-for-sale                 | 1,007,693          | 303,917          | 795,489          | 42,035            | 53,993           | 2,203,127         |
| Due from financing activities, net                    | 5,250,536          | 7,338,870        | 7,108,899        | 918,891           | 71,977           | 20,689,173        |
| Precious Metals                                       | 1,301,466          | -                | -                | -                 | -                | 1,301,466         |
| Other assets  | -                  | -                | -                | -                 | 406,269          | 406,269           |
| Construction projects, net                            | -                  | -                | -                | -                 | 50,020           | 50,020            |
| Joint venture   | -                  | -                | -                | -                 | 6,306            | 6,306             |
| Investment properties, net                            | -                  | -                | 26,136           | -                 | -                | 26,136            |
| Property and equipment, net                           | -                  | -                | -                | -                 | 377,753          | 377,753           |
| Intangible assets, net                                | -                  | -                | -                | -                 | 70,331           | 70,331            |
| Deferred tax assets                                   | -                  | -                | -                | -                 | 43,953           | 43,953            |
| Assets and a disposal group held for sale             | 26,008             | -                | -                | -                 | -                | 26,008            |
| <b>Total assets</b>                                   | <b>16,098,787</b>  | <b>7,672,769</b> | <b>7,937,481</b> | <b>961,107</b>    | <b>1,080,602</b> | <b>33,750,746</b> |
| Due to other financial institutions and banks         | 1,383,915          | 1,852,414        | 1,163,018        | -                 | -                | 4,399,347         |
| Sukuk securities issued                               | 152,520            | 87,849           | 1,953,221        | -                 | -                | 2,193,590         |
| Subordinated Loans                                    | -                  | -                | -                | 464,592           | -                | 464,592           |
| Money market balances                                 | 708,743            | -                | -                | -                 | -                | 708,743           |
| Current and profit / loss sharing investors' accounts | 20,966,585         | 1,092,441        | 85,047           | -                 | 71,770           | 22,215,843        |
| Derivative financial instruments                      | 16,381             | 2,365            | 7,140            | -                 | -                | 25,885            |
| Employee benefit obligations                          | -                  | 48,599           | -                | -                 | 44,257           | 92,856            |
| Income taxes payable                                  | -                  | 32,315           | -                | -                 | -                | 32,315            |
| Other liabilities and provisions                      | -                  | -                | -                | -                 | 380,872          | 380,872           |
| <b>Liabilities</b>                                    | <b>23,228,144</b>  | <b>3,115,983</b> | <b>3,208,425</b> | <b>464,592</b>    | <b>496,899</b>   | <b>30,514,043</b> |
| <b>Net</b>  | <b>(7,129,357)</b> | <b>4,556,786</b> | <b>4,729,056</b> | <b>496,515</b>    | <b>583,703</b>   | <b>3,236,703</b>  |

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29. Financial risk management (continued)

Analysis of financial liabilities by contractual maturities on an undiscounted basis:

| Financial liabilities                           | On demand        | Less than 3 months | 3 to 12 months   | 1 to 5 years     | Over 5 years     | Total             |
|---|------------------|--------------------|------------------|------------------|------------------|-------------------|
| As at December 31, 2015                         |                  |                    |                  |                  |                  |                   |
| Due to other financial institutions and banks   | -                | 30,680             | 330,059          | 3,952,974        | 688              | 4,314,401         |
| Subordinated loans                              | -                | 16,258             | 16,258           | 129,800          | 613,859          | 776,176           |
| Sukuk issued                                    | -                | 100,812            | 696,605          | 302,621          | 2,998,124        | 4,098,162         |
| Money market balances                           | -                | 712,538            | -                | -                | -                | 712,538           |
| Derivative financial instruments (*)            | -                | 4,829,392          | 1,266,025        | 193,326          | 630,582          | 6,919,324         |
| Current accounts                                | 9,400,730        | -                  | -                | -                | -                | 9,400,730         |
| Profit and loss sharing accounts (**)           | -                | 14,959,304         | 3,094,227        | 595,882          | 95,149           | 18,744,561        |
| <b>Total undiscounted financial liabilities</b> | <b>9,430,730</b> | <b>20,648,984</b>  | <b>5,403,173</b> | <b>5,174,604</b> | <b>4,338,402</b> | <b>44,965,892</b> |
| As at December 31, 2014                         |                  |                    |                  |                  |                  |                   |
| Due to other financial institutions and banks   | -                | 228,253            | 1,797,888        | 2,457,043        | -                | 4,483,184         |
| Subordinated loans                              | -                | -                  | -                | -                | 644,886          | 644,886           |
| Sukuk issued                                    | -                | 50,000             | 294,541          | 257,168          | 1,938,760        | 2,540,470         |
| Money market balances                           | -                | 709,392            | -                | -                | -                | 709,392           |
| Derivative financial instruments (*)            | -                | 4,288,256          | 178,108          | 94,123           | -                | 4,560,487         |
| Current accounts                                | 6,647,014        | -                  | -                | -                | -                | 6,647,014         |
| Profit and loss sharing accounts (**)           | -                | 3,086,353          | 6,368,729        | 5,596,762        | 516,985          | 15,568,829        |
| <b>Total undiscounted financial liabilities</b> | <b>6,647,014</b> | <b>8,362,254</b>   | <b>8,639,266</b> | <b>8,405,096</b> | <b>3,100,631</b> | <b>35,154,262</b> |

(\*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.

(\*\*) Customers have choice of demanding their accounts anytime by abandoning profit share income.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

|  | On demand        | Less than 3 months | 3 to 12 months   | 1 to 5 years     | Over 5 years   | Total             |
|--|------------------|--------------------|------------------|------------------|----------------|-------------------|
| <b>December 31, 2015</b>                       |                  |                    |                  |                  |                |                   |
| Contingent liabilities and other guarantees(*) | 4,755,765        | 659,715            | 1,672,231        | 1,743,849        | 125,318        | 8,956,878         |
| Commitments                                    | 2,792,914        | -                  | -                | -                | -              | 2,792,914         |
| <b>Total</b>                                   | <b>7,548,679</b> | <b>659,715</b>     | <b>1,672,231</b> | <b>1,743,849</b> | <b>125,318</b> | <b>11,749,792</b> |
| <b>December 31, 2014</b>                       |                  |                    |                  |                  |                |                   |
| Contingent liabilities and other guarantees    | 3,779,404        | 778,763            | 1,830,985        | 1,642,455        | 216,957        | 8,248,564         |
| Commitments                                    | 2,599,619        | -                  | -                | -                | -              | 2,599,619         |
| <b>Total</b>                                   | <b>6,379,023</b> | <b>778,763</b>     | <b>1,830,985</b> | <b>1,642,455</b> | <b>216,957</b> | <b>10,848,183</b> |

(\*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

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29. Financial risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and precious metals prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

| December 31, 2015 |  |                                   |                     | December 31, 2014                            |                                   |                     |
|-------------------|--|-----------------------------------|---------------------|--|-----------------------------------|---------------------|
| Precious metal    | Increase/<br>decrease in metal<br>price in % | Effect on<br>profit before<br>tax | Effect on<br>equity | Increase/<br>decrease in metal<br>price in % | Effect on<br>profit before<br>tax | Effect on<br>equity |
| Gold              | -10  | 53,947                            | -                   | +10  | (437)                             | -                   |
| Gold              | +10  | (53,947)                          | -                   | -10  | 437                               | -                   |

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

| December 31, 2015 |  |                                   |                     | December 31, 2014                            |                                   |                     |
|-------------------|--|-----------------------------------|---------------------|--|-----------------------------------|---------------------|
| Currency          | Increase/<br>decrease in metal<br>price in % | Effect on<br>profit before<br>tax | Effect on<br>equity | Increase/<br>decrease in metal<br>price in % | Effect on<br>profit before<br>tax | Effect on<br>equity |
| USD               | +10  | 6,847                             | 6,464               | +10  | 9,576                             | 34                  |
| USD               | -10  | (6,847)                           | (6,464)             | -10  | (9,576)                           | (34)                |
| EUR               | +10  | 5,852                             | 5,852               | +10  | 1,554                             | -                   |
| EUR               | -10  | (5,852)                           | (5,852)             | -10  | (1,554)                           | -                   |

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**29. Financial risk management (continued)**

The concentrations of assets, liabilities and off balance sheet items:

**December 31, 2015**

|   | EUR                | USD                | Other            | Precious Metals  | Total             |
|---|--------------------|--------------------|------------------|------------------|-------------------|
| Cash and balances with the Central bank               | 737,087            | 507,266            | 50,029           | 18,381           | 1,312,763         |
| Deposits with other banks and financial institutions  | 1,732,093          | 2,748,895          | 105,715          | 137,965          | 4,724,668         |
| Reserve deposits at the Central Bank                  | 317,760            | 3,801,098          | -                | 1,022,437        | 5,141,295         |
| Financial assets – available-for-sale                 | -                  | 780,171            | -                | -                | 780,171           |
| Financial assets – held for trading                   | -                  | 77,693             | 333              | -                | 78,026            |
| Due from financing activities, net                    | 2,334,643          | 6,515,428          | -                | 154,034          | 9,004,105         |
| Minimum finance lease payments receivable, net        | 390,615            | 447,525            | -                | -                | 838,140           |
| Precious metals                                       | -                  | -                  | -                | 471,703          | 471,703           |
| Other assets  | 13,844             | 116,585            | 3,268            | 119              | 133,816           |
| Construction projects, net                            | -                  | -                  | -                | -                | -                 |
| Joint venture   | -                  | -                  | -                | -                | -                 |
| Investment properties, net                            | -                  | -                  | -                | -                | -                 |
| Assets held for sale and disposal of group, net       | -                  | -                  | -                | -                | -                 |
| Property and equipment, net                           | 4,173              | 473                | -                | -                | 4,646             |
| Intangible assets, net                                | 41,204             | -                  | -                | -                | 41,204            |
| Deferred tax assets                                   | -                  | -                  | -                | -                | -                 |
| <b>Total assets</b>                                   | <b>5,571,419</b>   | <b>14,995,135</b>  | <b>159,345</b>   | <b>1,804,639</b> | <b>22,530,538</b> |
| Due to other financial institutions and banks         | 165,498            | 4,000,516          | 39,175           | -                | 4,205,189         |
| Sukuk issued  | 61                 | 2,481,897          | 551,720          | -                | 3,033,678         |
| Subordinated loans                                    | -                  | 589,734            | -                | -                | 589,734           |
| Money market balances                                 | -                  | -                  | -                | -                | -                 |
| Current and profit / loss sharing investors' accounts | 2,691,742          | 9,227,971          | 121,746          | 1,345,135        | 13,386,594        |
| Other liabilities & provisions                        | 28,146             | 98,986             | 16,881           | 291              | 144,304           |
| Employee benefit obligations                          | -                  | 86                 | -                | -                | 86                |
| Income taxes payable                                  | -                  | -                  | -                | -                | -                 |
| Derivative financial instruments                      | -                  | 159,744            | 467              | -                | 160,211           |
| Equity  | -                  | -                  | -                | -                | -                 |
| <b>Total liabilities and equity</b>                   | <b>2,885,447</b>   | <b>16,558,934</b>  | <b>729,989</b>   | <b>1,345,426</b> | <b>21,519,796</b> |
| <b>Net balance sheet position</b>                     | <b>2,685,972</b>   | <b>(1,563,799)</b> | <b>(570,644)</b> | <b>459,213</b>   | <b>1,010,742</b>  |
| <b>Net off-balance sheet position</b>                 | <b>(2,627,455)</b> | <b>1,632,270</b>   | <b>15,622</b>    | <b>80,257</b>    | <b>(899,306)</b>  |

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**29. Financial risk management (continued)**

December 31, 2014

|   | EUR              | USD               | Other            | Precious Metals  | Total             |
|---|------------------|-------------------|------------------|------------------|-------------------|
| Cash and balances with the Central bank               | 120,445          | 391,654           | 21,574           | -                | 533,673           |
| Deposits with other banks and financial institutions  | 421,436          | 2,427,653         | 199,187          | 126,978          | 3,175,254         |
| Reserve deposits at the Central Bank                  | 310,277          | 2,913,825         | -                | 931,507          | 4,155,609         |
| Financial assets – available-for-sale                 | -                | 609,889           | -                | -                | 609,889           |
| Financial assets – held for trading                   | -                | 7,841             | 405              | -                | 8,246             |
| Due from financing activities, net                    | 1,633,950        | 5,527,792         | -                | 174,324          | 7,336,066         |
| Minimum finance lease payments receivable, net        | 189,336          | 197,153           | -                | -                | 386,489           |
| Precious metals                                       | -                | -                 | -                | 1,301,466        | 1,301,466         |
| Other assets  | 69,432           | 48,254            | 422              | 97               | 118,205           |
| Construction projects, net                            | -                | -                 | -                | -                | -                 |
| Joint venture   | -                | -                 | -                | -                | -                 |
| Investment properties, net                            | -                | -                 | -                | -                | -                 |
| Assets held for sale and disposal of group, net       | -                | -                 | -                | -                | -                 |
| Property and equipment, net                           | 783              | 201               | -                | -                | 984               |
| Intangible assets, net                                | 2,949            | 46                | -                | -                | 2,995             |
| Deferred tax assets                                   | -                | -                 | -                | -                | -                 |
| <b>Total assets</b>                                   | <b>2,748,608</b> | <b>12,124,308</b> | <b>221,588</b>   | <b>2,534,372</b> | <b>17,628,877</b> |
| Due to other financial institutions and banks         | 228,200          | 4,163,035         | -                | -                | 4,391,235         |
| Sukuk issued  | -                | 1,953,221         | -                | -                | 1,953,221         |
| Subordinated loans                                    | -                | 464,592           | -                | -                | 464,592           |
| Money market balances                                 | -                | -                 | -                | -                | -                 |
| Current and profit / loss sharing investors' accounts | 2,337,490        | 5,618,869         | 120,129          | 1,910,986        | 9,987,474         |
| Other liabilities & provisions                        | 17,040           | 74,458            | 808              | 402              | 92,708            |
| Employee benefit obligations                          | -                | -                 | -                | -                | -                 |
| Income taxes payable                                  | -                | -                 | -                | -                | -                 |
| Derivative financial instruments                      | -                | 11,675            | 122              | -                | 11,797            |
| Equity  | -                | -                 | -                | -                | -                 |
| <b>Total liabilities and equity</b>                   | <b>2,582,730</b> | <b>12,285,850</b> | <b>121,059</b>   | <b>1,911,388</b> | <b>16,901,027</b> |
| <b>Net balance sheet position</b>                     | <b>165,878</b>   | <b>(161,542)</b>  | <b>100,530</b>   | <b>622,984</b>   | <b>727,850</b>    |
| <b>Net off-balance sheet position</b>                 | <b>(150,334)</b> | <b>257,303</b>    | <b>(101,235)</b> | <b>(627,349)</b> | <b>(621,615)</b>  |

**Pricing risk**

The Group issues loans with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.



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**29. Financial risk management (continued)**

**Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

**Capital adequacy**

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

As of December 31, 2015 and 2014, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

*Capital management*

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with unconsolidated financial statements prepared in accordance with BRSA accounting principles.

**Regulatory capital**

|   | 2015             | 2014             |               |                 |
|---|------------------|------------------|---------------|-----------------|
| Tier 1 capital  | 3,162,768        | 2,881,380        |               |                 |
| Tier 2 capital  | 659,168          | 563,835          |               |                 |
| Deductions from capital   | (33,236)         | (19,385)         |               |                 |
| <b>Total capital</b>  | <b>3,788,700</b> | <b>3,425,830</b> |               |                 |
| Risk weighted assets amount subject to credit,<br>market & operational risk | 26,620,510       | 22,525,507       |               |                 |
|   | <b>Actual</b>    | <b>Required</b>  | <b>Actual</b> | <b>Required</b> |
| Tier 1 capital ratio  | 11.88%           |                  | 12.79%        |                 |
| Total capital ratio   | 14.23%           | 12%              | 15.21%        | 12%             |

**30. Fair value of financial instruments**

**Fair values**

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2015, the fair value of financing and leasing receivables has been estimated as TL 27,568,091 (December 31, 2014 – TL 20,972,559) whereas their carrying amount is TL 25,852,466 (December 31, 2014 – TL 20,689,173).

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**30. Fair value of financial instruments (continued)**

**Fair values (continued)**

Fair value of borrowings at amortized cost is estimated as TL 9,337,577 (December 31, 2014 – TL 7,893,243), whereas their carrying amount is TL 9,199,038 (December 31, 2014 – TL 7,766,272). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

**31. Subsequent events**

In accordance with the decision taken in the Ordinary General Assembly Meeting, share capital has increased by TL 260,000 from retained earnings and dividend distributed to board members is amounted TL 4,321.

The Bank has made subordinated sukuk issuance amounting to 350 million US dollars, which has 10 years maturity with a redemption option at the end of 5 years and 7.90 percent annual rent according to the “Banking Shareholders Equity Regulation”, to contribute additional capital through KT Sukuk Company Ltd.