

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

Consolidated Financial Statements
as at and for the Years Ended
December 31, 2013

Table of contents

	<u>Page</u>
Independent auditors' report	1
Consolidated statement of financial position	2
Consolidated statement of comprehensive income	3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6 - 59

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

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 December 31, 2013 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 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.

Deloitte

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

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

Istanbul,
April 20, 2014

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of financial position as at December 31, 2013

(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2013	December 31, 2012
Assets			
Cash and balances with the Central Bank	4	858,686	478,136
Balances with other banks and financial institutions	4	2,715,572	1,585,434
Reserve deposits at the Central Bank	5	2,988,091	1,853,649
Financial assets – held for trading	6	115,936	61,811
<i>Derivative financial instruments</i>	19	108,739	39,189
<i>Share Certificates</i>		181	181
<i>Gold Fund</i>		7,016	22,441
Financial assets – available-for-sale	6	1,323,516	549,316
Due from financing activities, net	7	15,929,143	11,583,902
Minimum finance lease payments receivable, net	8	400,766	182,338
Precious metals		466,834	1,655,798
Construction projects, net	10	46,244	41,226
Joint ventures	10	5,064	-
Investment properties, net	11	20,815	31,315
Property and equipment, net	13	321,179	209,388
Intangible assets, net	14	55,775	43,729
Deferred tax assets	17	32,307	25,520
Other assets	9	294,651	265,536
		25,574,579	18,567,098
Assets and a disposal group held for sale	12	27,946	28,951
Total assets		25,602,525	18,596,049
Liabilities and equity			
Due to other financial institutions and banks	15	4,040,526	2,347,811
Sukuk securities issued	15	905,841	811,540
Subordinated loans	15	433,080	361,661
Money market balances		221,428	-
Current and profit / loss sharing investors' accounts	16	17,079,036	12,867,190
Derivative financial instruments	19	58,948	7,393
Employee benefit obligations	18	66,943	39,802
Income taxes payable	17	20,096	15,694
Other liabilities and provisions	19	358,121	416,621
Total liabilities		23,184,019	16,867,712
Share capital	21	1,700,000	1,100,000
Share premium	21	23,250	23,250
Available for sale investments reserve, net of tax		2,025	13,208
Employee termination benefits reserve, net of tax	18	(12,276)	-
Legal reserves and retained earnings	22	713,655	611,352
Currency translation differences		14,441	3,116
Other reserve	22	(22,589)	(22,589)
Total equity attributable to equity holders of the parent		2,418,506	1,728,337
Total liabilities and equity		25,602,525	18,596,049

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, 2013
(Currency – In thousands of Turkish Lira - TL)

	Notes	2013	2012
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		629,650	641,673
Profit on originated loans from current accounts and equity		668,840	516,823
Profit on deposits with other banks and financial institutions		11,307	12,368
Profit on finance leases		22,266	11,372
Total income from financing activities		1,332,063	1,182,236
Profit shares distributed to participation accounts		(455,614)	(475,914)
Profit shares distributed to other banks and financial institutions		(155,656)	(134,648)
Net financing income		720,793	571,674
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	(123,219)	(109,331)
Net financing income after provision for impairment in due from financing activities and lease receivables		597,574	462,343
Foreign exchange gain, net		133,051	82,526
Net financing income after net foreign exchange gain / (loss)		730,625	544,869
Fees and commission income	25	318,401	276,629
Income/(loss) from construction projects, net		-	(810)
Net trading income		39,200	21,119
Other income		62,404	33,888
Total other operating income		420,005	330,826
Fees and commission expense	25	(77,924)	(56,111)
Staff costs	26	(339,846)	(262,892)
Depreciation and amortization expense		(39,950)	(32,633)
Withholdings and other taxes		(26,670)	(21,502)
Rent expense		(59,739)	(42,367)
Other expenses	27	(172,660)	(137,965)
Share of (loss) of a joint venture		(436)	-
Total other operating expense		(717,225)	(553,470)
Income before taxation		433,405	322,225
Current tax charge	17	(73,153)	(50,379)
Deferred tax (charge)/credit	17	923	(9,618)
Net income for the year		361,175	262,228
Other comprehensive income for the year		(12,134)	11,648
Exchange differences on translation of the foreign subsidiary		11,325	(1,560)
Available-for-sale investments reserve		(11,183)	13,208
Net change in fair value		(13,979)	16,509
Deferred tax relating to component of other comprehensive income		2,796	(3,301)
Employee termination benefits reserve		(12,276)	-
Net change in fair value		(15,345)	-
Deferred tax relating to component of other comprehensive income		3,069	-
Total comprehensive income for the year		349,041	273,876
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	0.224	0.238

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, 2013
(Currency – In thousands of Turkish Lira - TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	Available-for-sale investments reserve	Employee termination benefits reserve	Currency Translation Differences	Total
Balances at January 1, 2012	950,000	23,250	34,921	481,438	(22,589)	-	-	4,676	1,471,716
Share capital increase	150,000	-	-	(150,000)	-	-	-	-	-
from retained earnings	150,000	-	-	(150,000)	-	-	-	-	-
cash injection	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	11,484	(11,484)	-	-	-	-	-
Dividends paid	-	-	-	(17,255)	-	-	-	-	(17,255)
Total comprehensive income for the year	-	-	-	262,228	-	13,208	-	(1,560)	273,876
Other reserve	-	-	-	-	-	-	-	-	-
Balances at December 31, 2012	1,100,000	23,250	46,405	564,947	(22,589)	13,208	-	3,116	1,728,337
Share capital increase	600,000	-	-	(240,000)	-	-	-	-	360,000
from retained earnings	240,000	-	-	(240,000)	-	-	-	-	-
cash injection	360,000	-	-	-	-	-	-	-	360,000
Transfer from retained earnings to legal reserves	-	-	14,395	(14,395)	-	-	-	-	-
Dividends paid	-	-	-	(18,872)	-	-	-	-	(18,872)
Total comprehensive income for the year	-	-	-	361,175	-	(11,183)	(12,276)	11,325	349,041
Other reserve	-	-	-	-	-	-	-	-	-
Balances at December 31, 2013	1,700,000	23,250	60,800	652,855	(22,589)	2,025	(12,276)	14,441	2,418,506

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, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	Notes	2013	2012
Cash flows from operating activities:			
Income from continuing operations before taxation		433,405	322,225
Depreciation and amortization	11, 13, 14	39,950	32,633
Provision for employee termination benefits	18	5,080	4,057
Provision for personnel bonus accrual	18	36,700	28,000
Provision for impairment in due from financing activities and lease receivables	7, 8	123,219	109,331
Income accrual of funds invested		(29,572)	(10,661)
Reversal of impairment in construction projects and other assets	10	-	(6,964)
Deferred income		(13,871)	(11,436)
Expense accrual of participation accounts		10,184	4,283
Expense accrual of funds borrowed		94,532	(40,802)
Net change in derivative financial instruments	20	(26,296)	4,804
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		(12,120)	(20,609)
Operating income before changes in operating assets and liabilities		661,211	414,861
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(1,134,442)	(929,283)
Due from financing activities		(4,433,124)	(1,577,601)
Minimum finance lease payments receivables		(224,192)	(48,848)
Other assets and construction projects		(82,687)	57,069
Current accounts and profit/loss sharing investors' accounts		3,867,924	2,832,085
Other liabilities		(191,840)	285,360
Payment for employee termination benefits	18	(1,984)	(1,448)
Payment for personnel bonuses	18	(28,000)	(28,357)
Precious metals		1,188,964	(680,667)
Income taxes paid		(96,443)	(38,568)
Net cash used in operating activities		(474,613)	284,603
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(756,638)	(536,532)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	-	-
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(163,209)	(143,390)
Proceeds from sale of property and equipment, intangible assets and investment properties		22,014	34,409
Additions to assets and liabilities held for sale		-	-
Proceeds from sale of asset and liabilities held for sale		18,897	18,775
Net cash used in investing activities		(878,936)	(626,738)
Cash flows from financing activities:			
Dividends paid	21	(18,872)	(17,255)
Increase in due to financial institutions and banks		1,985,331	782,283
Sukuk securities issued		-	-
Purchase of joint venture		(5,064)	-
Increase in share capital		360,000	-
Net cash provided by financing activities		2,321,395	765,028
Net increase in cash and cash equivalents		967,846	422,893
Net foreign exchange difference on cash and cash equivalents		69,953	8,755
Cash and cash equivalents at the beginning of the year	4	1,806,936	1,375,288
Cash and cash equivalents at the end of the year	4	2,844,735	1,806,936

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, 2013
(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 April 15, 2013. 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

At December 31, 2013, 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 100% shareholding was incorporated in June 1996 in Turkey. Körfez’s registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez’s main sources of revenue are from the sales of these projects.

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

The Bank’s other subsidiary, KT Sukuk Varlık Kiralama A.Ş. has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities 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, 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 has bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank has 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. Afterwards the Bank has transferred 8% of the joint venture shares, amounting to TL 7,229, to Körfez in exchange of release of its debt to Körfez İnşaat İş Ortaklığı amounting to TL 6,701 and for a cash consideration amounting to TL 528. The Bank has transferred the remaining 17% equity stake in Körfez İnşaat İş Ortaklığı to Körfez on September 23, 2011 for an amount of TL 15,361.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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, available-for-sale investments and loans which are designated at fair value through profit or loss.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Changes in accounting policies

New and Revised IFRSs applied with no materail affect on the consolidated financial statements

Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
Amendments to IAS 1	<i>Clarification of the Requirements for Comparative Information</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IFRS 7	<i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i>
Amendments to IFRS 10, IFRS 11 and IFRS 12	<i>Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1</i>

New and Revised IFRSs issue but not yet effective

IFRS 9	Financial Instruments
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to IAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>
Annual improvements to 2010-2012 Cycle – IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24	
Annual improvements to 2011-2013 Cycle – IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 40	

Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to financial statements. Management exercises judgment and makes use of information available at the date of the preparation of the financial statements in making these assumptions and estimates. The uncertainty about these judgments and estimates could result in outcomes that may have a material effect on future financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements are discussed below:

Employee benefits: The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 20.

Impairment of financial assets: There are judgments made by management during the estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets. Such estimations are disclosed in the relevant notes.

2. Summary of significant accounting policies (continued)

Significant accounting judgments and estimates (continued)

Deferred taxes: Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, 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. 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, 2013 and 2012 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, 2013

(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, 2013 and 2012 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, 2013 and 2012, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal is recognized in the consolidated income statement as net income/ (loss) after tax for the year from a discontinued operation.

Upon loss of control, the Bank accounts for the investment retained at its proportionate share of net asset value at the date the control is lost.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material balances and transactions between the Bank and its subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2013	December 31, 2012
"Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."	Turkey	100%	100%
"Körfez Tatil Beldesi San. ve Tic. A.Ş."	Turkey	100%	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%	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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.

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

Dates	USD / TL	EUR / TL
December 31, 2012	1.78	2.35
December 31, 2013	2.13	2.94

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 1.902 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	3–6.67 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 period/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.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

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.

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.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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 acquiree is remeasured to fair value at the acquisition date through profit or loss. Furthermore any acquisition costs incurred are expensed.

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

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

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)

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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.

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 75% - 90% 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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.

2. Summary of significant accounting policies (continued)

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.

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 information

For management purposes, the Bank is organized into three business segments:

Retail Banking – Principally handling individual customers' current, saving and investment accounts and providing consumer loans, credit cards facilities and funds transfer facilities.

Corporate and Commercial Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for corporate and institutional customers.

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

The Bank'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 2013 or 2012.

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.

Profit share income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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, 2013 and 2012, respectively.

For the year ended December 31, 2013	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	321,277	853,591	21,056	-	1,195,925
Intersegment (*)	231,803	(202,790)	(29,013)	-	-
Total operating income	553,080	650,801	(7,957)	-	1,195,925
Credit loss expense	(70,347)	(36,145)	(16,727)	-	(123,219)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	482,733	614,656	(24,684)	-	1,072,706
Results					
Net profit share income/(expense)	189,682	569,961	(38,850)	-	720,793
Net fees and commission income	62,382	179,349	(1,254)	-	240,477
Net trading income	485	9,594	29,121	-	39,200
Segment profit/(loss)	252,549	758,904	(10,983)	(567,065)	433,405
Income tax expense	-	-	-	(72,230)	(72,230)
Net profit for the year	252,549	758,904	(10,983)	(639,295)	361,175
Asset and liabilities as of December 31, 2013					
Assets					
Capital expenditures					
Property and equipment	-	-	-	163,209	163,209
Intangible assets	-	-	-	40,069	40,069
Depreciation and amortization	-	-	-	(39,950)	(39,950)
Total assets	5,266,657	9,716,138	9,884,518	735,212	25,602,525
Total liabilities	12,095,960	4,733,518	5,641,498	713,043	23,184,019

(*) Major part of the Group's deposit consists of retail banking customers, whereas majority of loans granted to corporate and commercial banking customers. Accordingly, in the segment reporting the Group presented net profit share income/ (expense) under related operating segment from which the loan sourced, in inter-segment line.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting (continued)

For the year ended December 31, 2012	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	188,689	819,731	(79,505)	-	928,915
Intersegment (*)	234,658	(184,372)	(50,286)	-	-
Total operating income	423,347	635,359	(129,791)	-	928,915
Credit loss expense	(74,991)	(34,254)	(86)	-	(109,331)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	348,356	601,105	(129,877)	-	819,584
Results					
Net profit share income/(expense)	129,249	561,788	(119,363)	-	571,674
Net fees and commission income	36,251	184,498	(231)	-	220,518
Net trading income	418	10,568	10,133	-	21,119
Segment profit/(loss)	165,918	756,854	(109,461)	(491,086)	322,225
Income tax expense	-	-	-	(59,997)	(59,997)
Net profit for the year	165,918	756,854	(109,461)	(551,083)	262,228
Asset and liabilities as of December 31, 2012					
Assets					
Capital expenditures					
Property and equipment	-	-	-	129,569	129,569
Intangible assets	-	-	-	45,055	45,055
Depreciation and amortization	-	-	-	(32,633)	(32,633)
Total assets	4,005,148	7,876,452	6,169,158	545,291	18,596,049
Total liabilities	9,331,261	3,423,782	3,528,506	584,163	16,867,712

4. Cash and balances with banks

	December 31, 2013	December 31, 2012
Cash on hand	703,663	304,914
Balances with the Central Bank of Turkey	155,023	173,222
Cash and balances with the Central Bank of Turkey	858,686	478,136
Balances with banks and other financial institutions	2,715,572	1,585,434
Sub Total	3,574,258	2,063,570
Less: Interbank gold deposits	729,523	256,634
Total	2,844,735	1,806,936

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks (continued)

As of December 31, 2013 and 2012, “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:

	2013				2012			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	98,250	142,998	2.06%	0.44%	250,734	382,290	5.32%	0.72%
Total		241,248				633,024		

5. Reserve deposits at the Central Bank of Turkey

	2013		2012	
	Foreign currency (full)	TL	Foreign currency (full)	TL
	US\$	915,234,035	1,953,384	618,596,432
EUR	248,624,212	730,085	100,000,000	235,170
XAU (gr.)	3,609,927	304,622	5,443,412	515,769
		2,988,091		1,853,649

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations. The required reserve rates are 11.5% up to 3-months maturity, 8.5% up to 6-month maturity, 6.5% up to 1-year maturity and 5% with 1-year or longer maturity in Turkish Lira and 13% up to 1-year maturity and 9% with 1-year or longer maturity in foreign currency.

6. Financial assets

Available-for-sale

	2013	2012
Unlisted shares (*)	8,692	8,257
Financial Sukuk	1,314,824	541,059
Total available-for-sale financial assets	1,323,516	549,316

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

	Nature of business	2013		2012	
		%	Amount	%	Amount
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.75	4,211	1.67	4,211
Neova Sigorta A.Ş.	Insurance company	6.99	3,752	6.99	3,332
Islamic International Rating Agency (IRA)	Financial institution	8.36	714	8.99	714
Borsa İstanbul A.Ş.	Exchange entity	0.0035	15	-	-
			8,692		8,257

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

6. Financial assets (continued)

On September 26, 2012, the Parent Bank invested in foreign currency rent certificate (“Sukuk”) issued by TR Undersecretariat of the Treasury with an annual profit share of 2.8% semiannual profit share payment, maturity of 5.5 years amounting to USD 75,000,000 (full amount).

On October 3, 2012, the Parent Bank invested in domestic currency rent certificate (“Sukuk”) issued by TR Undersecretariat of the Treasury with an annual profit share of 7.4% semiannual profit share payment, maturity of 2 years amounting to TL 382,820,168 (full amount).

On February 20, 2013, the Parent Bank invested in domestic currency rent certificate (“Sukuk”) issued by TR Undersecretariat of the Treasury with an annual profit share of 5.7% semiannual profit share payment, maturity of 2 years amounting to TL 352,504,059 (full amount).

On February 20, 2013, the Parent Bank invested in domestic currency rent certificate (“Sukuk”) issued by TR Undersecretariat of the Treasury with an annual profit share of 5.7% semiannual profit share payment, maturity of 2 years amounting to TL 1,000,000 (full amount).

On August 21, 2013, the Parent Bank invested in domestic currency rent certificate (“Sukuk”) issued by TR Undersecretariat of the Treasury with an annual profit share of 9.0% semiannual profit share payment, maturity of 2 years amounting to TL 323,000,000 (full amount).

On October 10, 2013, the Parent Bank invested in foreign currency rent certificate (“Sukuk”) issued by TR Undersecretariat of the Treasury with an annual profit share of 4.5% semiannual profit share payment, maturity of 5 years amounting to USD 9,800,000 (full amount).

These investments are classified under “Financial assets – available-for-sale” in the accompanying financial statements as of the balance sheet date.

Held for trading

Financial assets held for trading includes share certificates and B Type Gold Fund listed in the Istanbul Stock Exchange (ISE) amounting to TL 181 and TL 7,016 (December 31, 2012 – TL 181 and TL 22,441) respectively.

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

Financial investments	2013			2012		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	549,316	-	22,622	6,515	-	12,382
Additions	740,541	-	-	526,292	-	10,240
Disposals (sale and redemption)	-	-	(15,425)	-	-	-
Fair value movement	33,659	-	-	16,509	-	-
Impairment losses	-	-	-	-	-	-
Balance at the end of the year	1,323,516	-	7,197	549,316	-	22,622

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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, 2013 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	7,016	108,739	-	115,755
Forward transactions	-	103,381	-	103,381
Swap transactions	-	5,358	-	5,358
Other	7,016	-	-	7,016
Available-for-sale financial assets	1,272,139	-	-	1,272,139
Equity securities	-	-	-	-
Government debt securities	1,268,712	-	-	1,268,712
Other marketable securities	3,427	-	-	3,427
Financial liabilities				
Financial liabilities held for trading	-	58,948	-	58,948
Forward transactions	-	32,480	-	32,480
Swap transactions	-	26,468	-	26,468
Prior Period				
Financial assets				
Financial assets held for trading	22,441	39,189	-	61,630
Forward transactions	-	25,591	-	25,591
Swap transactions	-	13,598	-	13,598
Other	22,441	-	-	22,441
Available-for-sale financial assets	541,059	-	-	541,059
Government debt securities	541,059	-	-	541,059
Financial liabilities				
Financial liabilities held for trading	-	7,393	-	7,393
Forward transactions	-	5,132	-	5,132
Swap transactions	-	2,261	-	2,261

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

7. Due from financing activities, net

December 31, 2013	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	13,113,420	216,800	186,926	2,343,525	15,860,671
Past due not impaired	338,748	8,970	3,020	63,528	414,266
Impaired	402,831	10,639	9,670	9,541	432,681
Total gross loans	13,854,999	236,409	199,616	2,416,594	16,707,618
Less: Allowance for impairment on loans	(351,467)	(9,347)	(8,152)	(8,743)	(377,709)
Net loans (*)	13,503,532	227,062	191,464	2,407,851	16,329,909

December 31, 2012	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	9,293,189	156,240	130,217	1,660,723	11,240,369
Past due not impaired	418,151	13,009	2,856	56,654	490,670
Impaired	313,138	14,564	4,032	5,631	337,365
Total gross loans	10,024,478	183,813	137,105	1,723,008	12,068,404

Less: Allowance for impairment on loans	(279,115)	(13,747)	(3,546)	(5,755)	(302,164)
Net loans (*)	9,745,363	170,066	133,559	1,717,253	11,766,240

(*) Also includes minimum finance lease payment receivables.

	2013	2012
Performing		
Funds invested from profit/loss sharing accounts	6,469,506	6,347,839
Funds invested from current accounts and equity	8,610,475	5,003,446
Income accruals on due from financing activities (*)	801,908	197,919
	15,881,889	11,549,204
Funds in arrears		
Funds invested from profit / loss sharing accounts	194,038	137,447
Funds invested from current accounts and equity	223,066	197,320
	417,104	334,767
Total	16,298,993	11,883,971
Impairment allowance		
Funds invested from profit / loss sharing accounts	(148,240)	(111,592)
Funds invested from current accounts and equity	(221,610)	(188,477)
	(369,850)	(300,069)
Total due from financing activities	15,929,143	11,583,902

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net (continued)

Movement in impairment allowance for funds disbursed is as follows :

	December 31, 2013	December 31, 2012
Balance at January 1,	300,069	230,887
Charge for the period	188,802	160,182
Charges for the bank	119,365	104,845
Charge for the participation accounts	69,437	55,337
Recoveries of amounts previously provided for	(78,723)	(63,474)
Reserves written off in current year	(40,298)	(27,526)
Balance at the end of the year	369,850	300,069

The impairment allowance of TL 369,850 (December 31, 2012 – TL 300,069) 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:

	2013	2012
Balance at beginning of year	28,706	25,743
Provisions - bank	7,591	154
Provisions - participation accounts	(596)	2,809
Allowance at the end of the year	35,701	28,706

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

	2013	2012
Balance at beginning of year	11,141	7,128
Provisions - bank	1,065	4,013
Provisions - participation accounts	-	-
Allowance at the end of the year	12,206	11,141

The movement in specific allowance is as follows:

	2013	2012
Balance at the beginning of the year	271,363	205,144
Provisions - bank	111,774	104,691
Provisions - participation accounts	70,033	52,528
Recoveries of amounts previously provided for	(78,723)	(63,474)
Reserves written off in current year	(40,298)	(27,526)
Balance at the end of the year	334,149	271,363

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

The Bank’s share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is TL 14,811 (December 31, 2012 – TL 2,315).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

8. Minimum finance lease payments receivable, net

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

	2013	2012
Gross investment in finance leases	463,196	225,658
Unearned finance income	(70,148)	(43,822)
Total impaired receivables	15,577	2,597
Impairment allowance	(7,859)	(2,095)
Minimum lease payments receivable, net	400,766	182,338

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

	2013	2012
Balance at January 1	2,095	4,995
Charge for the period	6,987	513
Charges for the bank	5,823	39
Charge for the participation accounts	1,164	474
Recoveries of amounts previously provided for	(1,055)	(1,254)
Impairment allowance written off in current period	(168)	(2,159)
Balance at the end of the period	7,859	2,095

Gross investment in finance leases as to their maturity:

	2013	2012
Not later than 1 year	243,846	92,278
Later than 1 year and not later than 5 years	195,587	123,213
Later than 5 years	23,763	10,167
Non-performing receivables	15,577	2,597
Minimum lease payments receivable, gross	478,773	228,255
Less : Unearned finance income	(70,148)	(43,822)
Net investment in finance leases	408,625	184,433
Less : Allowance for impairment	(7,859)	(2,095)
Minimum lease payments receivable, net	400,766	182,338

As of December 31, 2013 TL 262,388 (December 31, 2012 - TL 179,832) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2013	2012
Not later than 1 year (*)	208,397	74,930
Later than 1 year and not later than 5 years	178,554	100,109
Later than 5 years	21,674	9,394
Net investment in finance leases	408,625	184,433

(*) includes total impaired receivables amounting to TL 15,577 (December 31, 2012 – TL 2,597).

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

9. Other assets

Other assets comprise the following:

	2013	2012
Clearing accounts	177,654	207,103
Prepaid expenses	38,328	27,160
Blockage for letter of guarantee	37,352	4,371
Receivables from Banking Operations	24,521	8,104
Value added tax (VAT) receivable	1,022	-
Receivables from precious metals transactions	-	816
Other	15,774	17,982
	294,651	265,536

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.

	2013	2012
Uncompleted construction projects	48,080	37,898
Kartal Project		
Cost of land	34,209	33,456
Cost of project	2,192	2,192
Kilyos Land		
Cost of land	1,497	1,497
Güre Tesisi	10,982	-
Completed construction projects (inventories)	10,292	10,292
	59,172	48,190
(Less) Reserve for net realizable value	(12,928)	(6,964)
Total construction projects, net	46,244	41,226

11. Investment properties, net

	2013	2012
Balance at the beginning of the year	31,315	31,127
Additions	2,955	13,653
Disposal	(18,959)	(17,354)
Depreciation charge	(417)	(474)
Transfer from assets held for resale (Note 12)	6,096	13,150
Reversal / (charge) of provisions for investment property	147	147
Transfer to assets held for resale (Note 12)	(322)	(8,934)
Balance at the end of the year	20,815	31,315
Cost	22,616	33,472
Accumulated depreciation	(1,062)	(1,336)
Accumulated impairment	(739)	(821)
Net carrying amount	20,815	31,315

Fair value of the investment properties is TL 82,273 (December 31, 2012 - TL 82,273) which is determined based on the valuations performed by independent qualified valuers on December 2012.

In the current economical 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

12. Assets and a disposal group held for sale

At December 31, 2013, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 17,892 (December 31, 2012 – TL 22,092), 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:

	2013	2012
Balance at the beginning of the year	28,951	23,962
Additions	17,892	22,092
Transfer from investment property (Note 11)	322	8,934
Transfer to investment property (Note 11)	(6,096)	(13,150)
Disposals	(13,123)	(12,855)
Impairment	-	(32)
Balance at the end of the year	27,946	28,951

Gain on sale of assets held for sale amounting to TL 5,703 is included in other income in the comprehensive income statement (December 31, 2012 – TL 5,918).

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Total
At January 1, 2012					
Cost	16,681	95,754	29,770	270	142,475
Additions	39,046	20,573	34,197	8	93,824
Disposals	-	(2,415)	(9)	(11)	(2,435)
Depreciation charge for the year	(152)	(21,186)	(3,059)	(79)	(24,476)
At December 31, 2012, net of accumulated depreciation and impairment	55,575	92,726	60,899	188	209,388
Additions(*)	84,328	52,791	5,243	-	142,362
Disposals	(317)	(905)	(615)	-	(1,837)
Depreciation charge for the year	(222)	(25,503)	(2,899)	(110)	(28,734)
At December 31, 2013, net of accumulated depreciation and impairment	139,364	119,109	62,628	78	321,179

(*) TL 4,957 and TL 472 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2013 and 2012, 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, 2012					
Cost	61,217	164,211	69,683	862	295,973
Accumulated depreciation	(1,949)	(71,485)	(8,784)	(674)	(82,892)
Accumulated impairment	(3,693)	-	-	-	(3,693)
Net carrying amount	55,575	92,726	60,899	188	209,388
At December 31, 2013					
Cost	141,535	217,952	66,829	729	427,045
Accumulated depreciation	(2,171)	(98,843)	(4,201)	(651)	(105,866)
Accumulated impairment	-	-	-	-	-
Net carrying amount	139,364	119,109	62,628	78	321,179

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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, 2013 and 2012 is as follows:

	2013	2012
Motor vehicles	460	516
Leasehold improvements	13,990	6,910
Furniture and office equipment	40,096	13,224
	54,546	20,650

14. Intangible assets, net

	Internally Generated Software	Other Software	Total
At January 1, 2012	10,029	16,505	26,534
Additions	9,614	35,441	45,055
Disposals	-	(20,177)	(20,177)
Amortization charge for the year	(1,650)	(6,033)	(7,683)
At December 31, 2012, net of accumulated amortization	17,993	25,736	43,729
Additions	20,086	19,983	40,069
Disposals	-	(15,574)	(15,574)
Amortization charge for the year	(10,479)	(1,970)	(12,449)
At December 31, 2013, net of accumulated amortization	27,599	28,176	55,775
At December 31, 2012			
Cost (gross carrying amount)	19,891	38,607	58,498
Accumulated amortization	(1,898)	(12,871)	(14,769)
Net carrying amount	17,993	25,736	43,729
At December 31, 2013			
Cost (gross carrying amount)	39,977	43,016	82,993
Accumulated amortization	(12,377)	(14,841)	(27,218)
Net carrying amount	27,599	28,176	55,775

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, 2013 and 2012 is as follows:

Original currency	Amount in TL	
	2013	2012
US\$	3,768,436	2,232,171
Euro	266,297	110,199
TL	5,793	5,441
Total	4,040,526	2,347,811

As of December 31, 2013 borrowings remaining maturities of which is less than 12 months amount to TL 2,970,024 (As of December 31, 2012 – TL 1,975,231).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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 1 and 2 years respectively, amounting to USD 275 million and EUR 83 million in the current period. Syndicated loans have profit share of Libor/Euribor + % 0.90 for annual maturity and profit share of Libor/Euribor + % 1,25 for 2 years maturity.

Sukuk securities as of December 31, 2013 and 2012 is as follows;

	Amount in TL	
	2013	2012
Sukuk certificates issued USD	754,279	811,540
Sukuk certificates issued TL	151,562	-
Total	905,841	811,540

On October 31, 2011 the Bank issued 5-year rent certificate (sukuk) amounting USD 350 million with a profit share rate of 5.875%. The Bank invested in domestic currency rent certificate issued by KT Kira Sertifikaları Varlık Kiralama A.Ş. with permission of Capital Markets Boards of Turkey on 7 November 2013, quarterly profit share payment schedule, maturity 1 year and amounting to TL 150,000,000 (full amount) and classified under “Sukuk issued” at the accompanying financial statements.

Subordinated loans as of December 31, 2013 and 2012 is as follows;

	Amount in TL	
	2013	2012
Subordinated loan provided by Kuwait Finance House	433,080	361,661
Total	433,080	361,661

On September 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

	2013		2012	
Current accounts:				
Turkish lira	2,640,376		1,588,185	
Foreign currency	2,363,813		1,756,595	
	5,004,189		3,344,780	
Profit/loss sharing investors' accounts:				
Turkish lira	6,648,422		5,182,740	
Foreign currency	5,322,356		4,218,782	
	11,970,778		9,401,522	
Blocked accounts:				
Turkish lira	32,208		39,516	
Foreign currency	26,957		45,008	
	59,165		84,524	
Total current accounts and profit/loss investors' accounts	17,034,132		12,830,826	
Expense accrual on current accounts and profit/loss sharing investors' accounts	44,904		36,364	
Total current accounts and profit/loss sharing investors' accounts	17,079,036		12,867,190	

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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:

	2013 (in TL)			2012 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	4,679,810	3,375,494	8,055,304	2,529,302	2,326,317	4,855,619
From 1 month to 3 months	3,319,675	3,287,899	6,607,574	3,224,829	3,058,698	6,283,527
From 3 months to 1 year	864,752	755,854	1,620,606	508,187	374,781	882,968
Over one year	456,769	293,879	750,648	548,123	260,589	808,712
	9,321,006	7,713,126	17,034,132	6,810,441	6,020,385	12,830,826

At December 31, 2013 and 2012, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2013		2012	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US\$	528,032,142	1,126,979	431,838,326	769,795
Euro	128,290,822	376,726	88,712,421	208,625
Precious metals		843,755		802,058
Other		43,310		21,125
		2,390,770		1,801,603
Profit/loss sharing investors' accounts:				
US\$	1,157,625,451	2,470,720	1,103,420,285	1,966,957
Euro	486,932,403	1,429,877	342,015,138	804,317
Precious metals		1,421,759		1,447,508
		5,322,356		4,218,782
		7,713,126		6,020,385

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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, 2013, and 2012 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.

	2013	2012
Current tax expense	73,152	50,379
Prepaid tax (-)	(53,056)	(34,685)
Income taxes payable	20,096	15,694
	2013	2012
Current tax expense	73,152	50,379
Deferred tax credit/(charge)	(922)	9,618
Total income tax (charge)/credit	72,230	59,997

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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, 2013 and 2012 is as follows:

	2013	2012
Profit before income tax	433,405	322,225
At Turkish statutory income tax rate of 20%	86,681	64,445
Effect of income not subject to tax	(5,450)	(8,228)
Effect of expenditure not allowable for income tax purposes	(9,001)	3,780
Income tax charge	72,230	59,997

Deferred tax as of December 31, 2013 and 2012 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2013	2012
Deferred income	21,195	18,442
Impairment provision for subsidiaries, fixed assets and assets held for sale	9,408	3,162
Provision for impairment in due from financing activities	8,793	10,534
Bonus accrual of personnel	7,621	5,600
Deferred tax accounted under shareholders' equity	4,247	-
Reserve for employee termination benefits	2,686	2,360
Effect of precious metals valuation	2,525	5,243
Effect of other temporary differences	147	251
Deferred tax assets	56,622	45,592
Derivative accrual	(9,620)	(11,452)
Provision for non cash loans and check commitments	(7,440)	(5,382)
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(4,552)	(3,206)
Deferred tax accounted under shareholders' equity	(1,685)	-
Accounting for finance leases	(1,018)	(32)
Effect of precious metals valuation	-	-
Deferred tax liabilities	(24,315)	(20,072)
Deferred tax asset – net	32,307	25,520

Movement of net deferred tax asset is as follows:

	2013	2012
Balance at the beginning of the year	25,520	38,439
Deferred tax (charge)/credit recognized in income statement	923	(9,618)
Deferred tax (charge)/credit recognized in equity	5,864	(3,301)
Balance at the end of the year	32,307	25,520

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

18. Employee benefit obligations

	2013	2012
Personnel bonus accrual	36,700	28,000
Employee termination benefits	30,243	11,802
Total employee benefit obligations	66,943	39,802

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

	2013	2012
Balance at January 1	28,000	28,357
Utilized/paid	(28,000)	(28,357)
Charge for the year	36,700	28,000
Balance at the end of the year	36,700	28,000

The movement in reserve for employee termination benefits is as follows:

	2013	2012
Balance at January 1	11,802	9,193
Utilized/paid	(1,984)	(1,448)
Service cost	1,603	1,834
Interest cost	3,477	398
Actuarial loss (*)	15,345	1,825
Balance at the end of the year	30,243	11,802

(*)Retirement pay liability arising from current period and amounting TL 15,345 is an actuarial loss amount and deferred tax amounting to TL 3,069 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, 2013 and 2012, 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, 2013 and 2012, the Group reflected a liability calculated using 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 3,254.44 (2012: TL 3,033.98) for each period of service at 31 December 2013.

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 3,438.22 that is effective commencing on January 1, 2014 (January 1, 2013: TL 3,129.35).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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:

	2013	2012
Discount rate (%)	3.29	2.38
Expected salary / ceiling increase rate (%)	7.5	5
Anticipated turnover rate (%)	89	91.4

19. Other liabilities and provisions

	2013	2012
Clearing accounts	182,530	324,855
Withholding tax and other tax payables	34,919	28,490
Payables to exporters and suppliers	41,799	7,645
Security premium for participation funds	8,919	5,685
Deferred revenue of non cash loans	-	1,027
Deductions on resource utilization fund	1,085	933
Other provisions	44,005	27,088
Other	44,864	20,898
Total other liabilities	358,121	416,621

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, 2013								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Inflows	108,739	-	4,784,234	3,607,829	858,832	237,291	80,282	-
Outflows	-	58,948	4,737,323	3,602,697	816,969	230,128	87,529	-
	108,739	58,948	9,521,557	7,210,526	1,675,801	467,419	167,811	-
December 31, 2012								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Inflows	39,189	-	2,736,709	1,816,294	791,865	128,550	-	-
Outflows	-	7,393	2,705,519	1,796,251	781,943	127,325	-	-
	39,189	7,393	5,442,228	3,612,545	1,573,808	255,875	-	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

21. Share capital

	2013	2012
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	1,700.00 million	1,100.00 million

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

	2013		2012	
	Number	TL	Number	TL
At January 1	1,100,000,000	1,100,000	950,000,000	950,000
Shares issued in				
- bonus shares from retained earnings	240,000,000	240,000	150,000,000	150,000
- cash	360,000,000	360,000	-	-
At year end	1,700,000,000	1,700,000	1,100,000,000	1,100,000

The Bank has increased its share capital on June 24, 2013. The share capital increase was funded from the retained earnings amounting to TL 240,000 (2012 - TL 150,000) and cash amounting to TL 360,000 (2012 - nil).

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, 2013 and 2012, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2013		2012	
	Amount	%	Amount	%
Kuwait Finance House	1,058,101	62.2	684,654	62.2
Directorate of Vakıf Foundations, Turkey	318,228	18.7	205,912	18.7
The Public Institution for Social Security, Kuwait	153,000	9.0	99,000	9.0
Islamic Development Bank	153,000	9.0	99,000	9.0
Other	17,671	1.1	11,434	1.1
Total share capital	1,700,000	100	1,100,000	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 18,872 (2012 – TL 17,255) from the profit of the year 2012.

	2013	2012
Ordinary shares		
Amount	17,255	17,255
TL (full) per share	0.012	0.016

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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 has bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank has 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, 2013 and 2012.

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

	2013	2012
Net profit attributable to continuing operations of the Bank for basic earnings per share	360,271	262,228
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	360,271	262,228
Weighted average number of ordinary shares for basic earnings per share (thousands)	1,553,041	1,100,000
Basic earnings per share (expressed in full TL per share)	0.232	0.238

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2012 - 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, 2012 - 18.7%), 9.0% (December 31, 2012 - 9.0%) and 9.0% (December 31, 2012 - 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, 2013 and 2012 and transactions have been entered into with related parties during the years ended:

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

		2013		2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	83,992	631	19,101	120
	XAU (gr.)	180,402	14,821	-	-
KFH – Bahrain	BHD	39,431	223	43,880	207
	US\$	76,437	163	155,635	278
Auto Land A.S.	TL	-	29,698	-	32,522
Other related parties	-	-	51,193	-	52,743
			96,729		85,870

ii) Due to other financial institutions and banks:

		2013		2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW (1)	US\$	158,057,149	337,341	156,831,033	279,567
Kuwait Finance House (1)	US\$	706,219,960	1,507,285	706,311,567	1,259,071
Kuwait Finance House, Bahrain	US\$	28,661,198	61,172	-	-
	EUR	1,654,810	4,859	-	-
Kuwait Finance House, Malaysia	US\$	-	-	50,274,879	89,620
Islamic Development Bank	US\$	16,273,834	34,733	10,774,711	19,207
			1,945,390		1,647,465

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

		2013		2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	1,494,167	3,189	1,303,095	2,323
Kuwait Finance House (1)	TL	-	1,179	-	373
Islamic Development Bank (1)	US\$	5,154	11	5,146	9
Islamic Development Bank (1)	TL	-	619	-	236
Kuwait Finance Malaysia	XAU (gr.)	1,189,664	97,857	940,275	89,963
Kuwait Finance House, Bahrain	US\$	1,406	3	-	-
Directorate of Vakıf Foundations, Turkey (1)	TL	-	15,814	-	10,355
Neova Sigorta AS (*)	TL	-	31,834	-	11,646
	US\$	44,043	94	11,946	21
			150,600		114,926

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures (continued)

iv) Profit shares distributed:

		2013		2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	27,644	59	47,538	85
Directorate of Vakıf Foundations, Turkey (1)	TL		923		831
Neova Sigorta AS (*)	US\$	-	-	923	2
	TL		1,392		393
Public Institute for Social Securities KW (1)	US\$	3,748	8	5,226,703	9,317
			2,382		10,628

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

v) Non cash credits issued:

		2013		2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	334,734	714	7,058,040	12,582
Other related parties	TL		17		1,148
			731		13,730

(1) Shareholders.

As of December 31, 2013 no provisions have been recognized in respect of loans given to related parties (December 31, 2012 - nil).

Loans amounting to TL 37 have been issued to directors during the year ended December 31, 2013 (December 31, 2012 – TL 336).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 10,510 during the year ended December 31, 2013 (December 31, 2012 – TL 10,510)

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman
Abdullah TIVNIKLI	B.O.D. Vice Chairman
Adnan ERTEM	B.O.D. Member and Audit Committee Chairman
Nadir ALPARSLAN	B.O.D. Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Fawaz KH E AL SALEH	B.O.D. Member
Mohammad Shujaiddin AHMED	B.O.D. Member
Shaheen H.A. AL GHANEM	B.O.D. Member and Audit Committee Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer

Key management includes 10 other officers together with the above B.O.D. members.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

25. Fees and commission income and expense

	2013	2012
Fees and commission income		
Commissions on loans	131,125	125,616
Commission income from commitments	75,166	61,590
Communication expense charges	32,007	24,698
POS commission income	23,099	22,078
Credit card fees and commissions	12,763	12,251
Income from agency activities	5,424	6,567
Import letter of credit commissions	3,614	5,007
Commissions from checks and notes	7,944	2,790
Other	27,259	16,032
Total	318,401	276,629

	2013	2012
Fees and commission expense		
Credit card machine and fees paid for credit cards	31,552	30,206
Brokerage fees on borrowings	16,174	10,975
ATM charges	16	40
Other	30,182	14,890
Total	77,924	56,111

26. Salaries and employee benefits

	2013	2012
Staff costs		
Wages and salaries	204,123	157,479
Bonus	38,312	28,000
Social security premiums	44,180	31,488
Other fringe benefits	30,033	25,296
Health expenses	9,108	7,664
Provision for employee termination benefits	1,984	1,448
Other	12,106	11,517
Total	339,846	262,892

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

27. Other expenses

	2013	2012
Impairment on investment property (Note 11)	(147)	(147)
Impairment on asset held for sale (Note 12)	32	32
Impairment charges/(reversal)	(115)	(115)
Insurance fund premium expense	32,673	20,857
Professional fees	23,159	17,088
Advertising expenses	14,097	13,753
Communication	13,855	11,222
Cleaning expense	11,519	9,248
Repair and maintenance expenses	10,475	13,761
Energy expenses	7,010	6,281
Grants and donations	4,268	5,582
Subscription and membership expenses	4,194	1,477
Travel and representation expenses	3,645	1,399
Non taxable income	3,604	2,554
Stationery and publishing expenses	3,040	2,742
Insurance expenses	1,810	1,451
Loss from sale of assets	241	279
Other	39,070	30,386
Other expenses	172,660	138,080
Total	172,545	137,965

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

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, 2013 and 2012:

	2013	2012
Letters of guarantee issued by the Bank	7,127,080	5,208,667
Letters of credit	1,217,277	991,612
Commitments	2,411,581	1,433,114
Acceptance credits	57,587	86,812
Other guarantees	270,403	34,786
Total	11,083,928	7,754,991

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, 2013 and 2012 is as follows:

	2013	2012
Within one year	-	-
After one year but not more than five years	130,964	48,926
More than five years	313,442	137,665
	444,406	185,961

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 44,848 and TL 37,442 as of December 31, 2013 and 2012 respectively. As of December 31, 2013, the amount of the checks and bonds in collection are TL 3,680,160 (December 31, 2012 – TL 2,677,543) and TL 553,184 (December 31, 2012 – TL 286,374) respectively.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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. The 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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.

Gross maximum exposure	2013	2012
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	3,143,114	2,026,871
Deposit with banks and financial institutions	2,715,572	1,585,434
Due from financing activities	15,929,143	11,583,902
Minimum financial lease payments receivable	400,766	182,338
Financial assets-available for sale	1,323,516	549,316
Financial assets-held for trading	7,197	22,622
Other assets	294,651	265,536
Derivative financial instruments	108,739	39,189
Total	23,922,698	16,255,208
Contingent liabilities	8,344,356	6,200,279
Other guarantees	327,991	100,172
Commitments	2,411,581	1,433,114
Total	11,083,928	7,733,565
Total credit risk exposure	35,006,626	23,988,773

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, 2013 was TL 100,316 (December 31, 2012 - TL 110,068) and non-cash credit exposure as of December 31, 2013 was TL 189,014 (December 31, 2012 - TL 189,008) before taking account of collateral or other credit enhancements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

(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:

	2013	2012
	Gross exposure	Gross exposure
Financial services	9,810,331	5,736,671
Construction and materials	7,993,643	5,638,472
General retailers	5,141,546	3,318,663
Manufacturing	3,596,357	2,466,264
Electricity	1,179,951	456,316
Health care and social services	983,064	826,899
Food and beverages	821,713	695,327
Mining operations	710,189	298,036
Forestry	130,250	115,567
Telecommunications	109,133	163,817
Real estate	84,033	30,553
Other	4,446,417	4,242,188
Total	35,006,627	23,988,773

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

The bank calculates the probability of delinquency and internal rating notes for the portfolio of business loans based on statistical methods up to TL 850,000(full amount) for all types of limits and up to TL 3,000,000(full amount) for real estate transactions of Turkish Commercial Code. Ratings which are calculated since 1 February 2013 are shown the table below as of 31 December 2013.

	Cash Loans	Non-Cash Loans	Total
High Quality	30%	34%	31%
Medium Quality	16%	16%	16%
Average	12%	10%	11%
Below Average	2%	4%	2%
Unrated	40%	36%	40%

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

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

2013	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	143,344	121,013	74,390	-	338,748
Consumer lending	9,579	39,020	23,900	-	72,499
Credit cards	3,020	-	-	-	3,020
Total	155,944	160,032	98,290	-	414,267
2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	163,528	161,455	145,493	-	470,476
Consumer lending	7,135	42,094	21,429	-	70,658
Credit cards	679	61	73	-	813
Total	171,342	203,610	166,995	-	541,947

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2013 and 2012 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2013	2012
Due from financing activities:		
Corporate lending	206,472	125,734
Small business lending	212,327	167,836
Consumer	11,755	10,091
Total renegotiated financial assets	430,574	303,661

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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, 2013

31 December 2013	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	858,686	-	-	-	-	858,686
Balances with other banks and financial institutions	2,699,988	15,584	-	-	-	2,715,572
Reserve deposits at the Central Bank	2,988,091	-	-	-	-	2,988,091
Financial assets – held for trading	97,423	18,332	-	181	-	115,936
<i>Derivative financial instruments</i>	90,407	18,332	-	-	-	108,739
<i>Share Certificates</i>	-	-	-	181	-	181
<i>Gold Fund</i>	7,016	-	-	-	-	7,016
Financial assets – available-for-sale	-	2,024	1,269,934	-	51,558	1,323,516
Due from financing activities, net	11,432,402	2,112,418	2,390,447	352,645	41,997	16,329,909
Precious Metals	466,834	-	-	-	-	466,834
Other assets	-	-	-	-	294,651	294,651
Construction projects, net	-	-	-	-	46,244	46,244
Joint venture	-	-	-	-	5,064	5,064
Investment properties, net	-	-	20,815	-	-	20,815
Property and equipment, net	-	-	-	-	321,179	321,179
Intangible assets, net	-	-	-	-	55,775	55,775
Deferred tax assets	-	-	-	-	32,307	32,307
Assets and a disposal group held for sale	27,946	-	-	-	-	27,946
Total assets	18,571,370	2,148,358	3,681,196	352,826	848,775	25,602,525
Due to other financial institutions and banks	1,614,228	1,355,797	1,070,501	-	-	4,040,526
Sukuk securities issued	-	151,562	754,279	-	-	905,841
Subordinated Loans	-	-	-	433,080	-	433,080
Money market balances	221,428	-	-	-	-	221,428
Current and profit / loss sharing investors' accounts	15,559,943	1,249,479	221,280	-	48,334	17,079,036
Derivative financial instruments	45,312	7,802	5,834	-	-	58,948
Employee benefit obligations	-	36,700	-	-	30,243	66,943
Income taxes payable	-	20,096	-	-	-	20,096
Other liabilities and provisions	-	-	1,879	-	356,242	358,121
Liabilities	17,440,911	2,821,436	2,053,773	433,080	434,819	23,184,019
Net	1,130,459	(673,078)	1,627,423	(80,254)	413,956	2,418,506

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(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, 2012.

31 December 2012	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	478,136	-	-	-	-	478,136
Balances with other banks and financial institutions	1,528,955	56,479	-	-	-	1,585,434
Reserve deposits at the Central Bank	1,853,649	-	-	-	-	1,853,649
Financial assets – held for trading	59,487	2,143	-	181	-	61,811
<i>Derivative financial instruments</i>	37,046	2,143	-	-	-	39,189
<i>Share Certificates</i>	-	-	-	181	-	181
<i>Gold Fund</i>	22,441	-	-	-	-	22,441
Financial assets – available-for-sale	-	-	404,984	136,076	8,256	549,316
Due from financing activities, net *	3,944,190	4,238,530	3,230,103	320,236	33,181	11,766,240
Precious metals	1,655,798	-	-	-	-	1,655,798
Other assets	-	-	-	-	265,536	265,536
Construction projects, net	-	-	-	-	41,226	41,226
Investment properties, net	-	-	31,315	-	-	31,315
Property and equipment, net	-	-	-	-	209,388	209,388
Intangible assets, net	-	-	-	-	43,729	43,729
Deferred tax assets	-	-	-	-	25,520	25,520
Assets and a disposal group held for sale	28,951	-	-	-	-	28,951
Total assets	9,549,166	4,297,152	3,666,402	456,493	626,836	18,596,049
Due to other financial institutions and banks	988,674	991,995	367,142	-	-	2,347,811
Sukuk securities issued	-	181,510	630,030	-	-	811,540
Subordinated Loans	-	-	-	361,661	-	361,661
Current and profit / loss sharing investors' accounts	11,303,958	1,069,254	381,831	-	112,147	12,867,190
Derivative financial instruments	6,306	1,087	-	-	-	7,393
Employee benefit obligations	-	28,000	-	-	11,802	39,802
Provisions	-	-	-	-	27,088	27,088
Income taxes payable	-	15,694	-	-	-	15,694
Other liabilities	-	-	99	-	389,434	389,533
Liabilities	12,298,938	2,259,540	1,379,102	361,661	568,471	16,867,712
Net	(2,749,772)	2,037,612	2,287,300	94,832	58,365	1,728,337

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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, 2013						
Due to other financial institutions and banks	-	189,098	1,717,844	2,092,946	-	3,999,888
Subordinated loans	-	-	-	-	426,860	426,860
Sukuk issued	-	-	150,000	-	746,953	896,953
Money market balances	-	221,317	-	-	-	221,317
Derivative financial instruments(*)	-	3,637,256	849,549	250,527	-	4,737,332
Current accounts	5,004,189	-	-	-	-	5,004,189
Profit and loss sharing accounts(**)	-	10,523,531	1,238,221	219,764	48,472	12,029,988
Total undiscounted financial liabilities	5,004,189	14,571,202	3,955,614	2,563,237	1,222,285	27,316,527
As at December 31, 2012						
Due to other financial institutions and banks	-	17,362	413,483	1,874,632	-	2,305,477
Subordinated loans	-	-	-	-	356,520	356,520
Sukuk issued	-	-	-	802,170	-	802,170
Derivative financial instruments(*)	-	2,252,638	293,683	332,264	-	2,878,585
Current accounts	3,344,780	-	-	-	-	3,344,780
Profit and loss sharing accounts(**)	-	1,726,918	2,318,161	3,705,479	15,480	7,766,037
Total undiscounted financial liabilities	3,344,780	3,996,918	3,025,327	6,714,545	372,000	17,453,569

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

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

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2013						
Contingent liabilities and other guarantees(*)	5,094,968	650,078	1,735,587	1,136,588	55,129	8,672,350
Commitments	2,411,581	-	-	-	-	2,411,581
Total	7,506,549	650,078	1,735,587	1,136,588	55,129	11,083,931
December 31, 2012						
Contingent liabilities and other guarantees	1,359,018	20,464	292,486	3,861,086	767,397	6,300,451
Commitments	1,433,114	-	-	-	-	1,433,114
Total	2,792,132	20,464	292,486	3,861,086	767,397	7,733,565

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

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

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, 2013				December 31, 2012		
	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	
Precious metal							
Gold	+10	(740)	-	+10	1,199	-	
Gold	-10	740	-	-10	(1,199)	-	

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.

Currency	December 31, 2013				December 31, 2012		
	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	
USD	+10	1,145	(471)	+10	(560)	1,898	
USD	-10	(1,145)	471	-10	560	(1,898)	
EUR	+10	2,370	-	+10	892	-	
EUR	-10	(2,370)	-	-10	(892)	-	

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

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

December 31, 2013

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	148,860	298,946	12,393	-	460,199
Deposits with other banks and financial institutions	363,031	1,427,077	57,146	738,800	2,586,054
Reserve deposits at the Central Bank	190,873	1,989,572	-	807,646	2,988,091
Financial assets – available-for-sale	-	219,260	-	-	219,260
Financial assets – held for trading	-	14,693	94,046	-	108,739
Due from financing activities, net	1,595,168	4,834,181	2,372	136,358	6,568,079
Minimum finance lease payments receivable, net	93,906	128,205	-	-	222,111
Precious metals	-	-	-	466,834	466,834
Other assets	27,878	35,387	135	92	63,493
Construction projects, net	-	-	-	-	-
Joint venture	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	254	121	-	-	375
Intangible assets, net	5	35	-	-	40
Deferred tax assets	-	-	-	-	-
Total assets	2,419,975	8,947,477	166,092	2,149,730	13,683,275
Due to other financial institutions and banks	266,295	3,768,413	-	-	4,034,708
Sukuk issued	1,667	752,612	-	-	754,279
Subordinated loans	-	433,080	-	-	433,080
Money market balances	-	-	-	-	-
Current and profit / loss sharing investors' accounts	1,806,603	3,597,699	43,310	2,265,514	7,713,126
Other liabilities & provisions	15,056	32,464	709	429	48,659
Employee benefit obligations	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	14,864	44,084	-	58,948
Equity	-	-	-	-	-
Total liabilities and equity	2,089,621	8,599,132	88,103	2,265,943	13,042,800
Net balance sheet position	330,354	348,345	77,989	(116,213)	640,475
Net off-balance sheet position	(306,654)	(336,898)	(23,775)	108,818	(558,509)

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

December 31, 2012

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	51,182	70,468	6,598	545	128,793
Deposits with other banks and financial institutions	110,255	849,019	56,129	256,634	1,272,037
Reserve deposits at the Central Bank	235,170	1,102,710	-	515,769	1,853,649
Financial assets – available-for-sale	-	136,075	-	-	136,075
Financial assets – held for trading	3,629	17,448	887	24,098	46,062
Due from financing activities, net	1,086,439	3,449,169	-	145,532	4,681,140
Minimum finance lease payments receivable, net	68,050	87,279	-	-	155,329
Precious metals	-	-	-	1,655,798	1,655,798
Other assets	4,971	12,067	120	90	17,248
Construction projects, net	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	367	44	-	-	411
Intangible assets, net	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total assets	1,560,063	5,724,279	63,734	2,598,466	9,946,542
Due to other financial institutions and banks	110,199	2,232,171	-	-	2,342,370
Sukuk issued	-	811,540	-	-	811,540
Subordinated loans	-	361,661	-	-	361,661
Current and profit / loss sharing investors' accounts	1,018,249	2,754,074	16,676	2,257,253	6,046,252
Other liabilities	1,195	34,518	1,149	-	36,862
Provisions	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	4,020	206	-	4,226
Equity	-	-	-	-	-
Total liabilities and equity	1,129,643	6,197,984	18,031	2,257,253	9,602,911
Net balance sheet position	430,420	(473,705)	45,703	341,213	343,631
Net off-balance sheet position	(421,497)	468,106	(31,451)	(328,014)	(312,856)

Pricing risk

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

Operational risk

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

29. Financial risk management (continued)

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, 2013 and 2012, 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

	2013		2012	
Tier 1 capital	2,227,915		1,598,446	
Tier 2 capital	478,066		347,708	
Deductions from capital	(5,583)		(42,500)	
Total capital	2,700,398		1,930,654	
Risk weighted assets amount subject to credit, market & operational risk	18,718,658		13,638,190	
	Actual	Required	Actual	Required
Tier 1 capital ratio	11.90%		11.72%	
Total capital ratio	14.43%	12%	14.16%	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 2013, the fair value of financing and leasing receivables has been estimated as TL 16,570,701 (December 31, 2012 – TL 12,057,527) whereas their carrying amount is TL 16,329,909 (December 31, 2012 – TL 11,766,240).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2013

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

30. Fair value of financial instruments (continued)

Fair value of borrowings at amortized cost is estimated as TL 5,660,797 (December 31, 2012 – TL 3,596,613), whereas their carrying amount is TL 5,600,875 (December 31, 2012 – TL 3,521,012). 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

On January 29, 2014, the Bank's Board of Directors' decided to increase Kuwait Turkish Participation Bank Dubai Ltd.'s, one of the Bank's Subsidiaries, capital by USD 10,000,000, from USD 30,000,000 (total amount) to USD 40,000,000 (total amount).

The Parent Bank will be plan to finalize second part of unpaid capital which was increased in 2013 as amount TL 360,000,000 (full amount) based on the decision of the Board of Directors numbered 1446 and dated 29 January 2014.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

İstanbul,
April 15, 2013