

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

**Interim Condensed Consolidated Financial  
Statements as at June 30, 2015**

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## Report on Review of Condensed Consolidated Interim Financial Information

To the Board of Directors of  
Kuveyt Türk Katılım Bankası Anonim Şirketi

### Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Kuveyt Türk Katılım Bankası A.Ş. ( the “Bank”) and its subsidiaries (together the “Group”) as of 30 June 2015, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, “Interim Financial Reporting”.

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

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

Istanbul, August 31, 2015

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Interim consolidated statement of financial position at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2015	December 31, 2014
<b>Assets</b>			
Cash and balances with the Central Bank	4	1,861,344	1,127,568
Balances with other banks and financial institutions	4	3,580,428	3,218,932
Reserve deposits at the Central Bank		4,592,084	4,155,609
Financial assets – held for trading		58,737	48,095
<i>Derivative financial instruments</i>		56,183	43,115
<i>Share Certificates</i>		390	181
<i>Precious Metal Fund</i>		2,164	4,799
Financial assets – available-for-sale	5	2,411,834	2,203,127
Due from financing activities, net	6	23,724,206	19,978,321
Minimum finance lease payments receivable, net	7	1,001,135	710,852
Precious Metals	8	981,911	1,301,466
Construction projects, net		50,527	50,020
Joint venture		9,392	6,306
Investment properties, net		23,544	26,136
Property and equipment, net	9	415,609	377,753
Intangible assets, net		113,147	70,331
Deferred tax assets	13	62,109	43,953
Other assets	10	547,903	406,269
		<b>39,433,910</b>	<b>33,724,738</b>
Assets and a disposal group held for sale		<b>29,528</b>	<b>26,008</b>
<b>Total assets</b>		<b>39,463,438</b>	<b>33,750,746</b>
<b>Liabilities and equity</b>			
Due to other financial institutions and banks		4,705,315	4,399,347
Sukuk securities issued	11	3,234,111	2,193,590
Subordinated Loans	11	538,000	464,592
Money market balances	11	847,330	708,743
Current and profit / loss sharing investors' accounts	12	25,978,856	22,215,843
Derivative financial instruments		72,580	25,885
Employee benefit obligations		79,152	92,856
Income taxes payable	13	43,172	32,315
Other liabilities and provisions		526,606	380,872
<b>Total liabilities</b>		<b>36,025,122</b>	<b>30,514,043</b>
Share capital	14	2,527,005	2,287,005
Share premium		23,250	23,250
AFS investments reserve		23,335	21,069
Employee termination benefits reserve		(17,138)	(17,437)
Legal reserves and retained earnings		852,099	921,312
Currency translation differences		50,669	22,410
Other reserve	14	(22,123)	(22,123)
Non-controlling interest		1,219	1,217
<b>Total equity attributable to equity holders of the parent</b>		<b>3,438,316</b>	<b>3,236,703</b>
<b>Total liabilities and equity</b>		<b>39,463,438</b>	<b>33,750,746</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Interim consolidated statement of comprehensive income for the six months ended June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2015	June 30, 2014
<b>Continuing operations</b>			
<b>Income from financing activities:</b>			
Profit on originated loans from profit / loss sharing accounts		455,972	418,744
Profit on originated loans from current accounts and equity		560,129	369,785
Profit on deposits with other banks and financial institutions		7,363	6,872
Profit on finance leases		31,640	15,643
Profit on sukuk investments		78,538	57,108
<b>Total income from financing activities</b>		<b>1,133,642</b>	<b>868,152</b>
Profit shares distributed to participation accounts		(331,137)	(308,337)
Profit shares distributed to banks and financial institutions		(182,673)	(107,279)
<b>Net financing income</b>		<b>619,832</b>	<b>452,536</b>
Provision for impairment in due from financing activities and lease receivables, net		(181,549)	(61,259)
<b>Net financing income after reserve for impairment in due from financing activities and lease receivables</b>		<b>438,283</b>	<b>391,277</b>
Foreign exchange gain, net		68,088	48,677
<b>Net financing income after net foreign exchange gain</b>		<b>506,371</b>	<b>439,954</b>
Fee and commission income		202,918	175,318
Net trading income / (expense)		(6,864)	32,523
Other income		96,059	43,268
<b>Total other operating income</b>		<b>292,113</b>	<b>251,109</b>
Fees and commission expense		(74,173)	(47,593)
Staff costs		(264,510)	(204,667)
Depreciation and amortization expense		(31,127)	(24,962)
Withholdings and other taxes		(18,149)	(13,795)
Rent expense		(42,016)	(35,029)
Other expenses		(102,584)	(102,880)
Share of a joint venture loss		(1,213)	(1,513)
<b>Total other operating expense</b>		<b>(533,772)</b>	<b>(430,439)</b>
<b>Profit before income tax</b>		<b>264,712</b>	<b>260,624</b>
Current tax charge	13	(73,636)	(55,837)
Deferred tax (charge) / credit	13	18,669	6,389
<b>Net income for the period</b>		<b>209,745</b>	<b>211,176</b>
<b>Other comprehensive income for the period</b>		<b>28,298</b>	<b>(1,787)</b>
Exchange differences on translation of the foreign subsidiary		28,298	(1,787)
<b>Available-for-sale investments reserve</b>		<b>2,266</b>	<b>40,190</b>
Net change in fair value		2,833	50,238
Deferred tax relating to component of other comprehensive income		(567)	(10,048)
<b>Total comprehensive income for the period</b>		<b>240,309</b>	<b>249,579</b>

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

**Interim consolidated statement of changes in equity  
for the six months ended June 30, 2015  
(Currency - In thousands of Turkish Lira - TL)**

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Currency translation differences	AFS investments reserves	Other reserves	Employee termination benefits reserve	Non-controlling interest	Total
<b>Balances at January 1, 2014</b>		1,700,000	23,250	60,800	652,855	14,441	2,025	(22,589)	(12,276)	-	2,418,506
Share capital increase											
<i>from retained earnings</i>	14	590,000	-	-	(230,000)	-	-	-	-	-	360,000
<i>cash injection</i>		230,000	-	-	(230,000)	-	-	-	-	-	-
<i>Transfer from retained earnings to legal reserves</i>		360,000	-	-	-	-	-	-	-	-	360,000
Dividends paid		-	-	17,069	(17,069)	-	-	-	-	-	-
Total comprehensive income for the period	15	-	-	-	(20,517)	-	-	-	-	-	(20,517)
Non-controlling interest		-	-	-	211,176	(1,787)	40,190	-	-	1,035	249,579
Other		(2,995)	-	-	-	-	-	362	-	-	(2,633)
<b>Balances at June 30, 2014</b>		2,287,005	23,250	77,869	596,445	12,654	42,215	(22,227)	(12,276)	1,035	3,005,970
<b>Balances at January 1, 2015</b>		2,287,005	23,250	77,869	843,443	22,410	21,069	(22,123)	(17,437)	1,217	3,236,703
Share capital increase											
<i>from retained earnings</i>	14	240,000	-	-	(240,000)	-	-	-	-	-	-
<i>cash injection</i>		240,000	-	-	(240,000)	-	-	-	-	-	-
Transfer from retained earnings to legal reserves		-	-	-	-	-	-	-	-	-	-
Dividends paid		-	-	22,418	(22,418)	-	-	-	-	-	-
Total comprehensive income for the period	15	-	-	-	(38,958)	-	-	-	-	-	(38,958)
Non-controlling interest		-	-	-	209,745	28,259	2,266	-	-	-	240,270
Other		-	-	-	-	-	-	-	299	2	299
<b>Balances at June 30, 2015</b>		2,527,005	23,250	100,287	751,812	50,669	23,335	(22,123)	(17,138)	1,219	3,438,316

# Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

## Interim consolidated statement of cash flows for the six months ended June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

	Notes	January 1 – June 30, 2015	January 1 – June 30, 2014
<b>Cash flows from operating activities:</b>			
Net profit before income tax		264,712	260,624
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>			
Depreciation and amortization expense		31,127	24,962
Provision for employee termination benefits		7,808	5,683
Provision for personnel bonus accrual		19,076	12,900
Provision for unused vacation		8,131	5,510
Provision for impairment in due from financing activities and lease receivables		181,549	61,259
Income accrual of funds invested		(40,310)	(48,756)
Deferred income reversal/accrual		8,606	(3,586)
Expense accrual of participation accounts		1,413	11,198
Expense accrual of funds borrowed		(11,576)	(17,076)
Net change in derivative financial instruments		67,254	14,871
Unrealized foreign exchange expense / (income)		56,765	(10,373)
Share of loss on associates accounted by using the equity method		1,213	1,513
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and assets held for sale	9	(125)	(2,567)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>595,643</b>	<b>316,162</b>
<b>Net changes in :</b>			
Reserve deposits at the Central Bank of Turkey		(436,475)	(505,766)
Due from financing activities		(3,951,613)	(1,174,101)
Minimum financial lease payment receivables		(292,717)	(168,709)
Other assets and construction projects		(39,028)	(54,739)
Current accounts and profit/loss sharing investors' accounts		3,761,600	2,590,936
Other liabilities		37,361	57,365
Payment for employee termination benefits		(1,739)	(1,360)
Payment for employee bonuses		(48,600)	(36,700)
Precious metals		319,555	(573,722)
Income taxes paid		(55,554)	(41,772)
<b>Net cash provided from / (used in) operating activities</b>		<b>111,567</b>	<b>407,594</b>
<b>Cash flows from investing activities:</b>			
Purchase of available-for-sale, fair value through PL securities		(786,375)	(579,750)
Proceeds from sale of available-for-sale, fair value through PL securities		599,491	1,828
Purchase of property and equipment, intangible assets and investment properties		(109,396)	(75,508)
Proceeds from sale of property and equipment, intangible assets and investment properties	9	314	3,939
<b>Net cash used in investing activities</b>		<b>(295,966)</b>	<b>(649,491)</b>
<b>Cash flows from financing activities:</b>			
Increase in share capital		-	357,005
Dividends paid		(38,958)	(20,517)
Increase in due to financial institutions and banks		1,491,271	1,318,161
<b>Net cash provided by financing activities</b>		<b>1,452,313</b>	<b>1,654,649</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,044,780</b>	<b>1,412,752</b>
Net foreign exchange difference on cash and cash equivalents		(28,506)	10,373
Cash and cash equivalents at the beginning of the period	4	4,229,620	2,844,735
<b>Cash and cash equivalents at the end of the period</b>	4	<b>5,245,894</b>	<b>4,267,860</b>

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)**

#### **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 approval 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 interim condensed consolidated financial statements were authorized for issue by the management on August 31, 2015.

##### **Nature of activities of the bank and its subsidiaries**

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

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

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

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

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

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

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



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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)**

#### **1. Corporate information (continued)**

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

#### **2. Basis of presentation and accounting policies**

##### **2.1 Basis of compliance**

The interim condensed consolidated financial statements of the Bank and its subsidiaries (collectively – the Group) have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" ("IAS 34").

The interim financial statements have been prepared on a basis consistent with the accounting policies set out in the financial statements of the Group for the year ended December 31, 2014.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2014.

##### **2.2 Basis of preparation**

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), the Capital Markets Board, Turkish Commercial Code and Turkish tax legislation.

Although the Bank is not legally required to prepare financial statements in accordance with IFRS, the condensed consolidated interim financial statements have been prepared by using statutory financial statements of the Bank and its subsidiaries and presented with adjustments and certain reclassifications for the purposes of fair presentation in accordance with IAS 34 (Interim Financial Reporting).

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.

##### **2.3 New and Revised International Financial Reporting Standards**

###### **2.3.1 a) Amendments to IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements**

None.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 2. Basis of presentation and accounting policies (continued)

#### 2.3 New and Revised International Financial Reporting Standards (continued)

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

Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
Annual Improvements to 2010-2012 Cycle	<i>IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38, IAS 24</i> <sup>1</sup>
Annual Improvements to 2011-2013 Cycle	<i>IFRS 1, IFRS 3, IFRS 13, IAS 40</i> <sup>1</sup>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>

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

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

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

#### **Annual Improvements to 2010-2012 Cycle**

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

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

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

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

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

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

#### **Annual Improvements to 2011-2013 Cycle**

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

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

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 2. Basis of presentation and accounting policies (continued)

#### 2.3 New and Revised International Financial Reporting Standards (continued)

#### 2.3.3 New and revised IFRSs in issue but not yet effective

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

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

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

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

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2018.

#### **IFRS 9 *Financial Instruments***

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

#### **IFRS 14 *Regulatory Deferral Accounts***

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

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

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

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

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

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)**

#### **2. Basis of presentation and accounting policies (continued)**

#### **2.3 New and Revised International Financial Reporting Standards (continued)**

#### **2.3.3 New and revised IFRSs in issue but not yet effective (continued)**

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

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

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

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

##### ***IFRS 15 Revenue from Contracts with Customers***

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

The five steps in the model are as follows:

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

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

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

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

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

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)**

#### **2. Basis of presentation and accounting policies (continued)**

#### **2.3 New and Revised International Financial Reporting Standards (continued)**

#### **2.3.3 New and revised IFRSs in issue but not yet effective (continued)**

##### **Annual Improvements 2012-2014 Cycle**

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

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

**IAS 19:** Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

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

##### **Amendments to IAS 1 *Disclosure Initiative***

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

##### **Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***

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

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

The Group evaluates the effects of these standards, amendments and improvements on the [consolidated] financial statements.

#### **2.4 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 Limited is US Dollar and the functional currency of KT Bank AG is Euro (EUR). The presentation currency of the Group is TL.

#### **2.5 Foreign currency translation**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain / (loss).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 2. Basis of presentation and accounting policies (continued)

##### 2.5 Foreign currency translation (continued)

Foreign currency exchange rates used by the Group as of respective period-ends are as follows :

Dates	USD / TL	EUR / TL
June 30, 2014	2.12	2.89
December 31, 2014	2.32	2.82
June 30, 2015	2.69	2.98

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 2.56 average exchange rate for the period. Exchange differences arising on translation are taken directly to a separate component of equity.

##### 2.6 Critical judgements and estimates

In preparing these condensed consolidated interim financial statements, the significant estimates, judgments and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2014.

##### 2.7 Reclassifications

No reclassifications.

#### 3. Segment Information

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

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

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

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

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 3. Segment Information (continued)

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

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

At the current period the Group has changed the structure of its internal organization in a manner that has also changed the composition of its reportable segments.

For the period ended June 30, 2015	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Treasury, International & Investment Banking	Segments Total	Recon- ciliation	Notes	Grand Total
Income from financing activities & sukuk	220,733	448,609	240,464	172,968	50,868	1,133,642	-		1,133,642
Intersegment income	264,975	(158,056)	(131,595)	(94,160)	118,836	-	-		-
<b>Total financing income</b>	<b>485,708</b>	<b>290,553</b>	<b>108,869</b>	<b>78,808</b>	<b>169,704</b>	<b>1,133,642</b>	-		<b>1,133,642</b>
Profit shares distributed	(240,279)	(55,022)	(11,947)	(18,374)	(189,067)	(514,689)	879	(a, b)	(513,810)
Credit loss expense	(9,108)	(93,335)	(67,715)	(11,391)	-	(181,549)	-		(181,549)
<b>Net financing income</b>	<b>236,321</b>	<b>142,196</b>	<b>29,207</b>	<b>49,043</b>	<b>(19,363)</b>	<b>437,404</b>	<b>879</b>		<b>438,283</b>
Foreign exchange gain/loss, net	14,964	26,289	12,858	7,684	(39,563)	22,232	45,856	(b)	68,088
Net trading income	-	-	-	-	(6,864)	(6,864)	-		(6,864)
Net fees & commission and other income	49,022	65,242	33,777	80,649	20,784	249,474	(24,670)	(b)	224,804
Other expenses	(160,467)	(164,515)	(59,089)	(35,459)	(18,004)	(437,534)	(22,065)	(a, b)	(459,599)
<b>Segment profit/(loss)</b>	<b>139,840</b>	<b>69,212</b>	<b>16,753</b>	<b>101,917</b>	<b>(63,010)</b>	<b>264,712</b>	-		<b>264,712</b>
Tax expenses	-	-	-	-	-	-	(54,967)	(c)	(54,967)
<b>Net profit for the year</b>	<b>139,840</b>	<b>69,212</b>	<b>16,753</b>	<b>101,917</b>	<b>(63,010)</b>	<b>264,712</b>	<b>(54,967)</b>		<b>209,745</b>
<b>Segment Assets</b>	<b>4,826,122</b>	<b>9,686,696</b>	<b>6,986,171</b>	<b>4,730,849</b>	<b>13,233,600</b>	<b>39,463,438</b>	-		<b>39,463,438</b>
<b>Segment Liabilities &amp; Equity</b>	<b>16,413,858</b>	<b>6,006,025</b>	<b>1,509,979</b>	<b>2,478,714</b>	<b>9,616,454</b>	<b>36,025,030</b>	<b>3,438,408</b>	(d)	<b>39,463,438</b>

a) The difference resulted from the Insurance Fund Premium expenses included in this line in performance reports but in the financials it is included in Other Expenses

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

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 3. Segment Information (continued)

For the period ended June 30, 2014	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Treasury, International & Investment Banking	Segments Total	Recon- ciliation	Notes	Grand Total
Income from financing activities & sukuk	142,996	179,620	396,845	78,866	69,825	868,152	-		868,152
Intersegment income (*)	256,252	(70,684)	(164,751)	(28,793)	7,975	-	-		-
<b>Total financing income</b>	<b>399,249</b>	<b>108,936</b>	<b>232,094</b>	<b>50,073</b>	<b>77,800</b>	<b>868,152</b>	-		<b>868,152</b>
Profit shares distributed (**)	(242,677)	(13,913)	(48,137)	(16,630)	(107,807)	(429,163)	13,547	(a)	(415,616)
Credit loss expense	(2,510)	(8,318)	(50,431)	-	-	(61,259)	-		(61,259)
<b>Net financing income</b>	<b>154,062</b>	<b>86,705</b>	<b>133,526</b>	<b>33,443</b>	<b>(30,007)</b>	<b>377,730</b>	<b>13,547</b>		<b>391,277</b>
Foreign exchange gain/loss, net	15,441	7,887	26,928	1,081	8,601	59,938	(11,261)	(b)	48,677
Net trading income	37	146	1,281	2,276	28,783	32,523	-		32,523
Net fees & commission and other income	48,597	52,285	83,548	15,825	10,711	210,967	7,619	(b)	218,586
Other expenses	(138,412)	(87,691)	(164,992)	(15,719)	(13,718)	(420,533)	(9,906)	(a, b)	(430,439)
<b>Segment profit/(loss)</b>	<b>79,724</b>	<b>59,333</b>	<b>80,291</b>	<b>36,906</b>	<b>4,370</b>	<b>260,624</b>	-		<b>260,624</b>
Tax expenses	-	-	-	-	-	-	(49,448)	(c)	(49,448)
<b>Net profit for the year</b>	<b>79,724</b>	<b>59,333</b>	<b>80,291</b>	<b>36,906</b>	<b>4,370</b>	<b>260,624</b>	<b>(49,448)</b>		<b>211,176</b>
<b>Segment Assets</b>	<b>3,985,884</b>	<b>3,382,927</b>	<b>10,302,297</b>	<b>2,028,800</b>	<b>10,541,311</b>	<b>30,241,219</b>	-		<b>30,241,219</b>
<b>Segment Liabilities &amp; Equity</b>	<b>12,884,479</b>	<b>1,934,892</b>	<b>4,177,982</b>	<b>1,406,630</b>	<b>6,831,266</b>	<b>27,235,249</b>	<b>3,005,970</b>	(d)	<b>30,241,219</b>

a) The difference resulted from the Insurance Fund Premium expenses included in this line in performance reports but in the financials it is included in Other Expenses

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

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

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



## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 4. Cash and balances with banks

For the purpose of the consolidated cash flows statement, cash and cash equivalents comprise the following at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Cash on hand	1,432,203	839,819
Balances with the Central Bank of Turkey	429,141	287,749
<b>Cash and balances with the Central Bank of Turkey</b>	<b>1,861,344</b>	<b>1,127,568</b>
Balances with banks and other financial institutions	3,580,428	3,218,932
<b>Sub Total</b>	<b>5,441,772</b>	<b>4,346,500</b>
Less: Interbank precious metal deposits	(195,878)	(116,880)
<b>Total</b>	<b>5,245,894</b>	<b>4,229,620</b>

As of June 30, 2015 and December 31, 2014, "balances with other banks and financial institutions" are include demand and time deposits. The time deposits can be analyzed as follows:

	June 30, 2015					December 31, 2014		
	Amount		Effective profit rate			Amount		Effective profit rate
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	(TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	-	891,025	-	0.74%	-	542,401	-	1.48%
<b>Total</b>		<b>891,025</b>				<b>542,401</b>		

#### 5. Financial assets

##### Available-for-sale

	June 30, 2015	December 31, 2014
Financial Sukuk	2,351,038	2,150,355
Unlisted shares (*)	60,796	52,772
<b>Total available-for-sale financial assets</b>	<b>2,411,834</b>	<b>2,203,127</b>

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

	Nature of business	%	June 30, 2015		December 31, 2014	
			Amount	%	Amount	%
KFH Global Sukuk Fund	Financial institution	19	51,040	19	44,080	
Neova Sigorta A.Ş.	Insurance company	6.99	4,816	6.99	3,752	
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.75	4,211	1.75	4,211	
Islamic International Rating Agency (IIRA)	Financial institution	8.36	714	8.36	714	
Borsa Istanbul A.Ş.	Exchange entity	0.0035	15	0.0035	15	
			<b>60,796</b>		<b>52,772</b>	

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 5. Financial assets (continued)

The fair value of the above unlisted available-for-sale investments cannot be reliably estimated.

Information of financial sukuk:

	June 30, 2015					December 31, 2014		
	Amount		Effective profit rate			Amount		Effective profit rate
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Financial Sukuk	1,616,000	735,038	9.53%	2.45%	1,583,482	566,873	8.19%	2.59%
<b>Total</b>		<b>2,351,038</b>				<b>2,150,355</b>		

#### 6. Due from financing activities, net

	June 30, 2015	December 31, 2014
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	10,045,630	7,749,805
Funds invested from current accounts and equity	12,590,810	11,497,667
Income accruals on due from financing activities (*)	974,255	659,812
	<b>23,610,695</b>	<b>19,907,284</b>
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	291,010	233,372
Funds invested from current accounts and equity	366,352	269,856
	<b>657,362</b>	<b>503,228</b>
<b>Total</b>	<b>24,268,057</b>	<b>20,410,512</b>
<b>Impairment allowance</b>		
Funds invested from profit / loss sharing accounts	(202,094)	(164,558)
Funds invested from current accounts and equity	(341,757)	(267,633)
	<b>(543,851)</b>	<b>(432,191)</b>
<b>Total due from financing activities</b>	<b>23,724,206</b>	<b>19,978,321</b>

(\*)Includes also foreign currency evaluation differences of foreign currency indexed loans.

As of June 30, 2015, the Bank took possession of collateral (lands and buildings) from customers amounting to TL 23,544 (December 31, 2014 - TL 26,136), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

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

**Selected notes to interim condensed consolidated financial statements as at June 30, 2015  
(Currency - In thousands of Turkish Lira - TL)**

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

Movement in impairment allowance for funds disbursed is as follows :

	June 30, 2015	June 30, 2014
Balance at January 1,	432,191	369,850
Charge for the period		
Charges for the profit/loss	141,839	53,591
Charge for the profit/loss sharing accounts	71,358	42,134
Recoveries of amounts previously provided for	(82,477)	(49,846)
Reserves written off in current period	(19,060)	(15,013)
<b>Balance at the end of period</b>	<b>543,851</b>	<b>400,716</b>

The impairment allowance of TL 543,851 (June 30, 2014 – TL 400,716) is made up of an individual and collective allowance.

**7. Minimum financial lease payment receivable, net**

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

	June 30, 2015	December 31, 2014
Gross investment in finance leases	1,151,649	803,893
Unearned finance income	(151,113)	(93,308)
Total impaired receivables	10,044	8,429
Impairment allowance	(9,445)	(8,162)
<b>Minimum lease payments receivable, net</b>	<b>1,001,135</b>	<b>710,852</b>

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

	June 30, 2015	June 30, 2014
Balance at January 1	8,163	7,859
Charge for the period		
Charges for the profit/loss	2,601	5,308
Charge for the profit/loss sharing accounts	2,434	5,300
Charge for the profit/loss sharing accounts	167	8
Recoveries of amounts previously provided for	(566)	(955)
Impairment allowance written off in current period	(753)	-
<b>Balance at the end of the period</b>	<b>9,445</b>	<b>12,212</b>

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

**Selected notes to interim condensed consolidated financial statements as at June 30, 2015**  
(Currency - In thousands of Turkish Lira - TL)

**7. Minimum financial lease payment receivable, net (continued)**

Gross investment in finance leases as to their maturity:

	June 30, 2015	December 31, 2014
Not later than 1 year	412,568	402,823
Later than 1 year and not later than 5 years	636,837	357,656
Later than 5 years	102,244	43,414
Non-performing receivables	10,044	8,429
<b>Minimum lease payments receivable, gross</b>	<b>1,161,693</b>	<b>812,322</b>
<b>Less : Unearned finance income</b>	<b>(151,113)</b>	<b>(93,308)</b>
Net investment in finance leases	1,010,580	719,014
Less : Allowance for impairment	(9,445)	(8,162)
<b>Minimum lease payments receivable, net</b>	<b>1,001,135</b>	<b>710,852</b>

As of June 30, 2015, TL 687,429 (December 31, 2014 - TL 510,636) of gross lease receivables is denominated in foreign currency (USD & EUR).

Net investment in finance leases as to their maturity:

	June 30, 2015	December 31, 2014
Not later than 1 year (*)	354,264	361,685
Later than 1 year and not later than 5 years	564,134	317,811
Later than 5 years	92,182	39,518
<b>Net investment in finance leases</b>	<b>1,010,580</b>	<b>719,014</b>

(\*) includes total impaired receivables amounting to TL 10,044 (December 31, 2014 – TL 8,429).

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

**8. Precious metals**

	June 30, 2015		December 31, 2014	
	Foreign currency (full gr.)	TL	Foreign currency (full gr.)	TL
Gold (gr.)	9,365,020	950,282	14,321,691	1,280,932
Silver (gr.)	23,255,882	31,629	17,155,986	20,534
		<b>981,911</b>		<b>1,301,466</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 9. Property and equipment

##### Acquisitions and disposals

During the six months ended June 30, 2015, the Group acquired assets with a cost of TL 54,354 (June 30, 2014 – TL 75,508).

Assets with a net book value of TL 189 were disposed of by the Group during six months ended June 30, 2015 (June 30, 2014 - TL 1,372), resulting in a net profit on loss TL 125 (June 30, 2014 – TL 2,567).

As of June 30, 2015 TL 21,840 (June 30, 2014 – TL 17,338) depreciation expenses of tangible assets have been charged.

#### 10. Other assets

	June 30, 2015	December 31, 2014
Clearing accounts	316,199	216,890
Receivables from precious metals transactions	34,922	22,841
Blockage for letter of guarantee	85,160	10,783
Prepaid expenses	59,802	49,465
Receivables from Banking Operations	9,464	11,164
Value added tax (VAT) receivable	2,025	-
Amount paid for licensing and establishment of new subsidiary	-	63,466
Other	40,331	31,660
	<b>547,903</b>	<b>406,269</b>

#### 11. Sukuk securities issued, Subordinated loans and Money market balances

##### Sukuk securities

Sukuk securities as of June 30, 2015 and December 31, 2014 are as follows;

	June 30, 2015	Amount in TL December 31, 2014
Sukuk certificates issued USD	2,659,724	1,953,221
Sukuk certificates issued TL	574,387	240,369
<b>Total</b>	<b>3,234,111</b>	<b>2,193,590</b>

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.

On June 26, 2014 the Bank issued 5-year rent certificate (sukuk) amounting USD 500 million with a profit share rate of 5.077%.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 11. Sukuk securities issued, Subordinated loans and Money market balances (continued)

##### Subordinated loans

Subordinated loans as of June 30, 2015 and December 31, 2014 are as follows;

	Amount in TL	
	June 30, 2015	December 31, 2014
Subordinated loan provided by Kuwait Finance House	538,000	464,592
<b>Total</b>	<b>538,000</b>	<b>464,592</b>

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.

##### Money market balances

Central Bank of the Republic of Turkey (“CBRT”) made some changes on orders for open market transactions (“OMT”) and prepared an additional frame contract for participation banks in order to present rent certificates to open market operations of CBRT in accordance with the principles of participation banks. According to this agreement; a new type of transaction was formed which enables participation banks to resell or repurchase rent certificates on their portfolio to CBRT when they are in need of funding or in attempt to evaluate the excess liquidity. In this content, initial OMT transaction was performed with CBRT on 14 June 2013 by selling rent certificates that are recognized in the assets of the Bank in return for conditional repurchasing. Beginning from this date, the Bank performs purchase tenders which are held by CBRT of which maturities are weekly; in return for Treasury rent certificates that are reported as assets in balance sheet in order to raise funds.

As of 30 June 2015, the Group has repurchasing agreements amounting to TL 847,330 (31 December 2014 – TL 708,743). Group also has Sukuks that are subject to the repurchasing agreements amounting TL 836,176 (31 December 2014 – TL 684,991).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 12. Current and profit loss sharing investors' accounts

	June 30, 2015	December 31, 2014
<b>Current accounts:</b>		
Turkish Lira	3,938,666	3,489,974
Foreign currency	4,099,072	3,157,040
	<b>8,037,738</b>	<b>6,647,014</b>
<b>Profit/loss sharing investors' accounts:</b>		
Turkish Lira	8,997,872	8,648,272
Foreign currency	8,854,437	6,801,515
	<b>17,852,309</b>	<b>15,449,787</b>
<b>Blocked accounts:</b>		
Turkish Lira	30,294	51,121
Foreign currency	6,398	16,291
	<b>36,692</b>	<b>67,412</b>
<b>Total current accounts and profit/loss investors' accounts</b>	<b>25,926,739</b>	<b>22,164,213</b>
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>52,117</b>	<b>51,630</b>
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>25,978,856</b>	<b>22,215,843</b>

#### 13. Income taxes

##### Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying condensed consolidated interim financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base for the six month period ended June 30, 2015. This rate was 20% for the six month period ended June 30, 2014 as well. Capital gains arising from the disposal of property and equipment and investments owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in equity with the intention to be utilized in a share capital increase within five years from the date of the disposal. The remaining 25% of such capital gains are subject to corporate tax.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2015 is 20%. (2014: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 13. Income taxes (continued)

##### Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 23 July 2006, withholding income tax rate is 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

The details of income tax expense are as follows;

	June 30, 2015	December 31, 2014
Current tax expense	73,772	114,821
Prepaid tax (-)	(30,600)	(82,506)
<b>Income taxes payable</b>	<b>43,172</b>	<b>32,315</b>
	June 30, 2015	June 30, 2014
Current tax expense	73,636	55,837
Deferred tax charge / (credit)	(18,669)	(6,389)
<b>Total income tax charge</b>	<b>54,967</b>	<b>49,448</b>

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 Group effective income tax rate for the periods June 30, 2015 and 2014 are as follows :

The tax rates at 30 June 2015 applicable in the foreign countries are as follows:

<u>Tax Country</u>	<u>Tax rates</u>
Germany	%15
Dubai	%0

	June 30, 2015	June 30, 2014
Net profit before income tax	264,712	260,624
At Turkish statutory income tax rate of 20%	54,557	51,308
Effect of income not subject to tax	(1,882)	(2,224)
Carry forward losses for which no deferred tax asset was recognized	1,078	108
Effect of expenditure not allowable for income tax purposes	1,214	256
<b>Income tax charge</b>	<b>54,967</b>	<b>49,448</b>



## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 13. Income taxes (continued)

Deferred income tax as of June 30, 2015 and December 31, 2014 are attributable to the following items :

	Deferred tax assets / (liabilities)	
	June 30, 2015	December 31, 2014
Provision for impairment in due from financing activities	5,842	3,845
Reserve for employee termination benefits	5,215	4,024
Deferred income	27,463	24,356
Bonus accrual of personnel	6,715	10,172
Impairment provision for subsidiaries, fixed assets and assets held for sale	21,015	16,730
Effect of precious metals valuation	12,829	5,148
Deferred tax accounted under shareholders' equity	4,359	4,359
Derivative accrual	3,241	-
Effect of other temporary differences	1,734	825
Carry forward tax losses	1,078	-
<b>Deferred tax assets</b>	<b>89,491</b>	<b>72,701</b>
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(5,887)	(5,896)
Accounting for finance leases	(3)	(685)
Derivative accrual	-	(3,313)
Provision for non-cash loans and check commitments	(10,164)	(10,345)
Financial assets fair value differences	(10,250)	(5,267)
<b>Deferred tax liabilities</b>	<b>(26,304)</b>	<b>(25,506)</b>
<b>Provision for deferred tax asset</b>	<b>(1,078)</b>	<b>-</b>
<b>Deferred tax asset – net</b>	<b>62,109</b>	<b>43,953</b>

Movement of net deferred tax (liability) / asset is:

	June 30, 2015	June 30, 2014
Balance at the beginning of the year	43,953	32,307
Deferred income tax recognized in profit or loss	18,669	6,389
Deferred income tax relating to other comprehensive income	(513)	(10,048)
<b>Balance at the end of the period</b>	<b>62,109</b>	<b>28,648</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 14. Share capital and other reserves

##### Share capital

	June 30, 2015	December 31, 2014
<b>Number of common shares</b> , 1 TL, par value. Authorized, issued and outstanding.	<b>2,527.05 million</b>	2,287.05 million

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

	June 30, 2015		June 30, 2014	
	Number	TL	Number	TL
At January 1	2,287,005,000	2,287,005	1,700,000,000	1,700,000
Shares issued in				
- cash	-	-	360,000,000	360,000
- bonus shares from retained earnings	240,000,000	240,000	230,000,000	230,000
- purchased shares (*)	-	-	(2,995,000)	(2,995)
<b>At June 30</b>	<b>2,527,005,000</b>	<b>2,527,005</b>	<b>2,287,005,000</b>	<b>2,287,005</b>

(\*) includes 2,995 TL arised from Bank's purchased its own shares during Bank's recent capital increase.

The Group 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 June 30, 2015 and December 31, 2014, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2015		December 31, 2014	
	Amount	%	Amount	%
Kuwait Finance House	1,574,704	62.32	1,425,325	62.32
Directorate of Vakıf Foundations, Turkey	473,597	18.74	428,671	18.74
The Public Institution for Social Security, Kuwait	227,700	9.01	206,100	9.01
Islamic Development Bank	227,700	9.01	206,100	9.01
Other	23,304	0.92	20,809	0.92
<b>Total share capital</b>	<b>2,527,005</b>	<b>100</b>	<b>2,287,005</b>	<b>100</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 15. Dividends paid and proposed

##### Dividends paid and proposed

During the current period, the Bank has paid a dividend of TL 38,958 (June 30, 2014 – TL 20,517) from the profit of the year 2014.

	June 30, 2015	June 30, 2014
<b>Ordinary shares</b>		
Amount	38,958	20,517
TL (full) per share	0.015	0.012

#### 16. 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.

- a) The following is a brief summary of significant contingencies and commitments as of June 30, 2015 and December 31, 2014 :

	June 30, 2015	December 31, 2014
Letters of guarantee issued by the Bank	7,089,837	6,893,972
Letters of credits	1,053,943	922,530
Commitments	3,023,776	2,582,471
Acceptance credits	54,621	59,790
Other guarantees	608,289	372,420
<b>Total</b>	<b>11,830,466</b>	<b>10,831,183</b>

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

Future minimum rental payables under operating leases are as follows :

	June 30, 2015	December 31, 2014
Within one year	180	64
After one year but not more than five years	181,399	171,657
More than five years	392,538	338,129
<b>Total</b>	<b>574,117</b>	<b>509,850</b>

#### Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 703,223 as of June 30, 2015 (December 31, 2014 - TL 540,459). As of June 30, 2015, the amount of the checks and bonds in collection are TL 4,999,248 (December 31, 2014 – TL 4,335,906) and TL 1,041,067 (December 31, 2014 - TL 740,175 ) respectively.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 17. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements, shareholders and parties associated with them are referred to as related parties. A number of transactions were entered into with related parties in the normal course of business. The related parties also include individuals who are principal owners, management and members of the Group's Board of Director's and their families.

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2015 and December 31, 2014 and also transactions which have been entered into with related parties during the six months period ended June 30, 2015 and 2014.

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

		June 30, 2015		December 31, 2014	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	Kuwaiti Dinar	148,496	1,311	29,911	236
	XAU (gr.)	249,039	25,270	138,497	12,387
KFH – Bahrain	BHD	30,024	214	38,846	239
	US\$	48,109	129	71,488	166
Auto Land A.S.	TL	-	54,455	-	37,442
Kuwait finance Malaysia	US\$	2,563	7	4,637	11
	XAU(gr)	1	-	51	5
Other related parties	-	-	48,582	-	42,805
			129,968		93,291

<sup>(1)</sup> Shareholders

#### ii) Due to banks & other financial institutions:

		June 30, 2015		December 31, 2014	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
Public Institute for Social Securities KW <sup>(1)</sup>	US\$	160,128,873	430,154	158,703,817	368,018
Kuwait Finance House <sup>(1)</sup>	US\$	674,752,526	1,812,587	755,118,232	1,751,044
Kuwait Finance House, Bahrain (*)	US\$	-	-	-	-
	EUR	-	-	4,159,118	11,732
Islamic Development Bank <sup>(1)</sup>	US\$	11,359,899	15,782	19,127,469	44,354
			2,258,523		2,175,148

<sup>(1)</sup> Shareholders

(\*) Determined as related party as these companies are under the common control of the ultimate parent.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 17. Related party disclosures (continued)

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

		June 30, 2015		December 31, 2014	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	US\$	1,631,885	4,384	2,264,867	5,252
Kuwait Finance House <sup>(1)</sup>	TL	-	1,318	-	2,484
Kuwait Finance House <sup>(1)</sup>	XAU (gr.)	7,000	710	-	-
Islamic Development Bank <sup>(1)</sup>	TL	-	1,046	-	619
Kuwait Finance Malaysia	XAU (gr.)	1,065,294	108,097	1,128,475	100,931
Kuwait Finance House, Bahrain	US\$	1,224	3	1,216	3
Directorate of Vakıf Foundations, Turkey <sup>(1)</sup>	TL	-	28,623	-	21,952
Neova Sigorta AS (*)	TL	-	91,368	-	80,480
	US\$	157,821	424	3,875	9
	EUR	200,381	598	355	1
Public Institute for Social Securities KW <sup>(1)</sup>	US\$	161,716	434	160,852	373
		<b>237,005</b>		<b>212,104</b>	

(1) Shareholders

(\*) Determined as related party as these companies are under the common control of the ultimate parent.

##### iv) Profit shares distributed :

		June 30, 2015		June 30, 2014	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	US\$	8,391,742	21,484	8,930,652	19,317
Islamic Development Bank <sup>(1)</sup>	US\$	137,883	353	53,167	115
Directorate of Vakıf Foundations, Turkey <sup>(1)</sup>	TL	-	95	-	794
Neova Sigorta (*)	TL	-	2,070	-	1,433
Public Institute for Social Securities KW <sup>(1)</sup>	US\$	1,608,411	4,118	116,942	248
		<b>28,120</b>		<b>21,907</b>	

(1) Shareholders

(\*) Determined as related party as these companies are under the common control of the ultimate parent.

##### v) Non-cash credits issued :

		June 30, 2015		December 31, 2014	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	US\$	6,131,693	16,472	5,956,021	13,811
Kuwait Finance Malaysia	US\$	40,000	107	40,000	93
Other related parties	TL	-	43,505	-	25,657
		<b>60,084</b>		<b>39,561</b>	

(1) Shareholders

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2015 (Currency - In thousands of Turkish Lira - TL)

#### 17. Related party disclosures (continued)

##### Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 13,073 during the six months period ended June 30, 2015 (For the six months ended June 30, 2014 - TL 10,042).

The key management personnel of the Bank are as follows;

Hamad Abdulmohsen AL MARZOUQ	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 KHE AL SALEH	B.O.D. Member
Mohamad Al-Midani	B.O.D. Member and Audit Committee Member
Ufuk UYAN	B.O.D. Member and General Manager
Ahmed S. AL KHARJI	B.O.D. Member

Key management includes 9 other officers together with the above B.O.D. members.

#### 18. Fair value of financial instruments

##### Fair values

The fair value of the fixed rate financial assets 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 30 June 2015, the fair value of financing and leasing receivables has been estimated as TL 23,618,103 (December 31, 2014 – TL 20,640,419) whereas their carrying amount is TL 24,725,341 (December 31, 2014 – TL 20,689,173).

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.

##### 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 June 30, 2015 are given in the table below:

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

**Selected notes to interim condensed consolidated  
financial statements as at June 30, 2015  
(Currency - In thousands of Turkish Lira - TL)**

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

<b>Current Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets held for trading	<b>2,164</b>	<b>56,183</b>	-	<b>58,347</b>
Forward transactions	-	24,749	-	24,749
Swap transactions	-	31,434	-	31,434
Precious metal fund	2,164	-	-	2,164
Available-for-sale financial assets	<b>2,351,038</b>	-	-	<b>2,351,038</b>
Government debt securities	1,970,112	-	-	1,970,112
Other marketable securities	380,926	-	-	380,926
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	<b>72,580</b>	-	<b>72,580</b>
Forward transactions	-	22,322	-	22,322
Swap transactions	-	50,258	-	50,258

<b>Prior Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets held for trading	<b>4,799</b>	<b>43,115</b>	-	<b>47,914</b>
Forward transactions	-	21,583	-	21,583
Swap transactions	-	21,532	-	21,532
Precious metal fund	4,799	-	-	4,799
Available-for-sale financial assets	<b>2,150,355</b>	-	-	<b>2,150,355</b>
Government debt securities	1,873,362	-	-	1,873,362
Other marketable securities	276,993	-	-	276,993
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	<b>25,885</b>	-	<b>25,885</b>
Forward transactions	-	14,614	-	14,614
Swap transactions	-	11,271	-	11,271

**19. Subsequent events:**

None.