

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

**Condensed Consolidated Interim Financial
Statements as at June 30, 2017**

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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
İstanbul

Introduction

We have reviewed the accompanying condensed consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. (the "Bank") and its subsidiaries (together the "Group"), which comprise the condensed consolidated statement of financial position as of June 30, 2017, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". 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 International Accounting Standard 34.

DRT BAĞIMSIZ DENETİM VE SMMM AŞ

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

İstanbul, October 13, 2017

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of financial position at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

| | Notes | June 30, 2017 | December 31, 2016 |
|--|-------|-------------------|----------------------|
| Assets | | | |
| Cash and balances with the Central Bank | 4 | 1,537,807 | 1,875,863 |
| Balances with other banks and financial institutions | 4 | 4,854,168 | 5,979,425 |
| Reserve deposits at the Central Bank | | 6,109,624 | 5,678,251 |
| Financial assets – held for trading | | 135,985 | 166,762 |
| <i>Derivative financial instruments</i> | | 28,429 | 110,049 |
| <i>Share Certificates</i> | | 390 | 390 |
| <i>Sukuk held for trading</i> | | 107,166 | 56,323 |
| Financial assets – available-for-sale | 5 | 4,434,655 | 3,751,680 |
| Due from financing activities, net | 6 | 30,866,209 | 27,087,876 |
| Minimum finance lease payments receivable, net | 7 | 1,696,382 | 1,545,637 |
| Precious metals | 8 | 398,325 | 802,280 |
| Construction projects, net | | 108,328 | 77,939 |
| Joint venture | | 17,680 | 15,236 |
| Investment properties, net | | 36,102 | 26,129 |
| Property and equipment, net | 9 | 423,353 | 426,867 |
| Intangible assets, net | | 156,519 | 140,467 |
| Deferred tax assets | 13 | 102,404 | 110,410 |
| Other assets | 10 | 1,164,748 | 700,487 |
| | | 52,042,289 | 48,385,309 |
| Assets and a disposal group held for sale | | 39,310 | 42,667 |
| Total assets | | 52,081,599 | 48,427,976 |
| Liabilities and equity | | | |
| Due to other financial institutions and banks | | 3,256,616 | 3,273,100 |
| Sukuk securities issued | 11 | 4,900,698 | 4,763,981 |
| Subordinated loans | 11 | 1,267,450 | 1,981,646 |
| Money market balances | | - | 1,219,873 |
| Current and profit / loss sharing investors' accounts | 12 | 36,802,377 | 32,016,053 |
| Minimum finance lease payable | | 13 | 226 |
| Derivative financial instruments | | 187,218 | 257,556 |
| Employee benefit obligations | | 110,903 | 122,508 |
| Income taxes payable | 13 | 73,716 | 27,851 |
| Other liabilities and provisions | 17 | 879,345 | 525,323 |
| Total liabilities | | 47,478,336 | 44,188,117 |
| Share capital | 14 | 3,097,322 | 2,787,322 |
| Share premium | | 22,933 | 22,933 |
| AFS investments reserve | | 7,281 | (35,279) |
| Employee termination benefits reserve | | (13,753) | (13,753) |
| Legal reserves and retained earnings | | 1,498,984 | 1,443,117 |
| Currency translation differences | | 49,322 | 126,484 |
| Hedging fund | | (38,956) | (70,863) |
| Other reserve | 14 | (22,162) | (22,162) |
| Total equity attributable to equity holders of the parent | | 4,600,971 | 4,237,799 |
| Non-controlling interest | | 2,292 | 2,060 |
| Total liabilities and equity | | 52,081,599 | 48,427,976 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of comprehensive income for the six months ended June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

| | Notes | 1 January- June 30, 2017 | 1 January- June 30, 2016 |
|--|-------|-----------------------------|-----------------------------|
| Continuing operations | | | |
| Income from financing activities: | | | |
| Profit on originated loans from profit / loss sharing accounts | | 779,441 | 599,827 |
| Profit on originated loans from current accounts and equity | | 662,602 | 660,605 |
| Profit on deposits with other banks and financial institutions | | 32,282 | 20,762 |
| Profit on finance leases | | 59,726 | 48,787 |
| Profit on sukuk investments | | 133,970 | 94,035 |
| Total income from financing activities | | 1,668,021 | 1,424,016 |
| Profit shares distributed to participation accounts | | (553,720) | (427,315) |
| Profit shares distributed to banks and financial institutions | | (245,775) | (240,121) |
| Net financing income | | 868,526 | 756,580 |
| Provision for impairment in due from financing activities and lease receivables, net | | (315,541) | (270,669) |
| Net financing income after reserve for impairment in due from financing activities and lease receivables | | 552,985 | 485,911 |
| Foreign exchange gain, net | | 81,520 | 72,282 |
| Net financing income after net foreign exchange gain | | 634,505 | 558,193 |
| Fee and commission income | | 267,121 | 232,416 |
| Income from construction projects, net | | 4,801 | 31,196 |
| Net trading income | | 164,753 | 25,946 |
| Other income | | 85,350 | 102,545 |
| Share of a joint venture income | | 2,444 | - |
| Total other operating income | | 524,469 | 392,103 |
| Fees and commission expense | | (78,845) | (67,835) |
| Staff costs | | (348,635) | (314,838) |
| Depreciation and amortization expense | | (47,701) | (37,029) |
| Withholdings and other taxes | | (26,539) | (21,763) |
| Rent expense | | (55,736) | (48,765) |
| Other expenses | | (127,492) | (127,048) |
| Share of a joint venture loss | | - | (263) |
| Total other operating expense | | (684,948) | (617,541) |
| Profit before income tax | | 474,026 | 332,755 |
| Current tax charge | 13 | (103,156) | (42,964) |
| Deferred tax (charge) / credit | 13 | (712) | (16,112) |
| Net income for the period | | 370,158 | 273,679 |
| Other comprehensive income for the period, Items that may be reclassified subsequently to profit or loss: | | (77,162) | 876 |
| Exchange differences on translation of the foreign subsidiary | | (77,162) | 876 |
| Available-for-sale investments reserve | | 42,560 | 20,903 |
| Net change in fair value | | 53,200 | 26,129 |
| Deferred tax relating to component of other comprehensive income | | (10,640) | (5,226) |
| Hedging funds | | 31,907 | 24 |
| Employee termination benefits reserves | | - | (398) |
| Total comprehensive income for the period | | 367,463 | 295,084 |
| Attributable to: | | | |
| - Owners of the equity | | 370,158 | 273,679 |
| - Non-controlling interests | | 232 | 7,637 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of changes in equity for the six months ended June 30, 2017 (Currency - in thousands of Turkish Lira - TL)

| | Notes | Share capital | Share Premium | Legal reserves | Retained earnings | Currency translation differences | Hedging Funds | AFS investments reserves | Other reserves | Employee termination benefits reserve | Non-controlling interest | Total |
|---|-------|---------------|---------------|----------------|-------------------|----------------------------------|---------------|--------------------------|----------------|---------------------------------------|--------------------------|-----------|
| Balances at January 1, 2016 | | 2,527,322 | 22,933 | 100,287 | 1,042,245 | 70,961 | (32,660) | 5,394 | (22,162) | (14,916) | 1,320 | 3,700,724 |
| Share capital increase | 14 | 260,000 | - | - | (260,000) | - | - | - | - | - | - | - |
| from retained earnings | | 260,000 | - | - | (260,000) | - | - | - | - | - | - | - |
| Transfer from retained earnings to legal reserves | | - | - | 22,574 | (22,574) | - | - | - | - | - | - | - |
| Dividends paid | 15 | - | - | - | (3,399) | - | - | - | - | - | - | (3,399) |
| Total comprehensive income for the period | | - | - | - | 273,679 | 876 | 24 | 20,903 | - | (398) | - | 295,084 |
| Non-controlling interest | | - | - | - | - | - | - | - | - | - | 7,637 | 7,637 |
| Other | | - | - | - | 475 | - | - | - | - | - | - | 475 |
| Balances at June 30, 2016 | | 2,787,322 | 22,933 | 122,861 | 1,030,426 | 71,837 | (32,636) | 26,297 | (22,162) | (15,314) | 8,957 | 4,000,521 |
| Balances at January 1, 2017 | | 2,787,322 | 22,933 | 122,861 | 1,320,256 | 126,484 | (70,863) | (35,279) | (22,162) | (13,753) | 2,060 | 4,239,859 |
| Share capital increase | 14 | 310,000 | - | - | (310,000) | - | - | - | - | - | - | - |
| from retained earnings | | 310,000 | - | - | (310,000) | - | - | - | - | - | - | - |
| Transfer from retained earnings to legal reserves | | - | - | 27,528 | (27,528) | - | - | - | - | - | - | - |
| Dividends paid | 15 | - | - | - | (4,291) | - | - | - | - | - | - | (4,291) |
| Total comprehensive income for the period | | - | - | - | 370,158 | (77,162) | 31,907 | 42,560 | - | - | - | 367,463 |
| Non-controlling interest | | - | - | - | - | - | - | - | - | - | 232 | 232 |
| Balances at June 30, 2017 | | 3,097,322 | 22,933 | 150,389 | 1,348,595 | 49,322 | (38,956) | 7,281 | (22,162) | (13,753) | 2,292 | 4,603,263 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of cash flows for the six months ended June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

| | Notes | January 1 – June 30, 2017 | January 1 – June 30, 2016 |
|--|----------|------------------------------|------------------------------|
| Cash flows from operating activities: | | | |
| Net profit before income tax | | 474,026 | 332,755 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization expense | 9 | 47,701 | 37,029 |
| Provision for employee termination benefits | | 10,580 | 13,497 |
| Provision for personnel bonus accrual | | 55,927 | 18,988 |
| Provision for unused vacation | | 10,023 | 10,049 |
| Provision for impairment in due from financing activities and lease receivables | | 315,541 | 270,669 |
| Expense/ (income) accrual of funds invested | | 3,007 | (98,929) |
| Deferred income accrual/reversal | | (37,806) | (2,923) |
| Reversal / Expense accrual of participation accounts | | 5,312 | (6,528) |
| Expense /Reversal accrual of funds borrowed | | (11,886) | 3,189 |
| Net change in derivative financial instruments | | 11,282 | (88,160) |
| Impact of exchange difference on cash and cash equivalents and financial instruments | | 51,575 | (31,191) |
| Share of loss on associates accounted by using the equity method | | (2,444) | 263 |
| Loss/(gain) on sale of property and equipment, intangible assets, investment properties and assets held for sale | | (8,422) | (5,426) |
| Operating profit before changes in operating assets and liabilities | | 924,416 | 453,282 |
| Net changes in : | | | |
| Reserve deposits at the Central Bank of Turkey | | (431,373) | (137,588) |
| Due from financing activities | | (3,988,777) | (1,941,384) |
| Minimum financial lease payment receivables | | (153,849) | (189,801) |
| Other assets and construction projects | | (780,728) | (313,804) |
| Current accounts and profit/loss sharing investors' accounts | | 4,132,640 | 875,612 |
| Other liabilities | | 634,171 | 621,060 |
| Payment for employee termination benefits | | (2,817) | (3,384) |
| Payment for employee bonuses | | (55,290) | (49,677) |
| Precious metals | | 403,955 | (707,443) |
| Income taxes paid | | (59,060) | (52,702) |
| Net cash provided from / (used in) operating activities | | 623,234 | 1,445,829 |
| Cash flows from investing activities: | | | |
| Purchase of available-for-sale, fair value through PL securities | | (1,939,995) | (1,546,413) |
| Proceeds from sale of available-for-sale, fair value through PL securities | | 1,179,401 | 766,342 |
| Purchase of property and equipment, intangible assets and investment properties | | (61,776) | (107,447) |
| Proceeds from sale of property and equipment, intangible assets and investment properties | | 15,705 | 15,120 |
| Net cash used in investing activities | | (806,665) | (872,398) |
| Cash flows from financing activities: | | | |
| Dividends paid | | (4,291) | (3,399) |
| Increase in due to financial institutions and banks | | (1,907,163) | 604,451 |
| Net cash provided by financing activities | | 1,911,454 | 601,052 |
| Net increase in cash and cash equivalents | | (2,094,831) | (1,717,175) |
| Net foreign exchange difference on cash and cash equivalents | | (16,854) | 3,422 |
| Cash and cash equivalents at the beginning of the period | 4 | 7,640,555 | 6,565,043 |
| Cash and cash equivalents at the end of the period | 4 | 5,528,870 | 4,851,290 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (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 October 13, 2016.

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 301 “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.

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.

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

KT Portföy Yönetim Anonim Şirketi (“Company”), is operating in Turkey. The Company is founded in May 26, 2015. The main aim of the bank is to serve its customers in every aspect of the fund management business with a participation based portfolio management company.

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

The Group’s subsidiary in Dubai is liquidated as at May 2017. As a result of this liquidation, the Bank has recognized TL 46,038 thousand gain.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

1. Corporate information (continued)

In accordance with decision of the Bank's Board of Directors on April 25, 2013, Bank decided to establish a pension company with the equal share amounts with Albaraka Türk Katılım Bankası A.Ş, and that pension company is registered with the trade name "Katılım Emeklilik ve Hayat Anonim Şirketi", 895027 registry numbered dated December 17, 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, 2016.

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, 2016.

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 and available-for-sale investments.

2.3 New and Revised International Financial Reporting Standards

2.3.1 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, 2017 (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 12 | <i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹ |
| Amendments to IAS 7 | <i>Disclosure Initiative</i> ¹ |
| Annual Improvements to IFRS Standards 2014–2016 Cycle | <i>IFRS 12</i> ¹ |

¹ Effective for annual periods beginning on or after January 1, 2017.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 *Disclosure Initiative*

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (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:

| | |
|---|--|
| Amendments to IFRS 10 and IAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
| IFRS 9 | <i>Financial Instruments</i> ¹ |
| IFRS 15 | <i>Revenue from Contracts with Customers</i> ¹ |
| Amendments to IFRS 15 | <i>Revenue from Contracts with Customers</i> ¹ |
| Amendments to IFRS 2 | <i>Classification and Measurement of Share-Based Payment Transactions</i> ¹ |
| IFRS 16 | <i>Leases</i> ² |
| Amendments to IFRS 4 | |
| | <i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'</i> |
| IFRIC 22 | <i>Foreign Currency Transactions and Advance Consideration</i> ¹ |
| Amendments to IAS 40 | <i>Transfers of Investment Property</i> ¹ |
| Annual Improvements to IFRS Standards 2014–2016 Cycle | <i>IFRS 1</i> ¹ , <i>IAS 28</i> ¹ |
| IFRS 17 | <i>Insurance Contracts</i> ³ |
| IFRIC 23 | <i>Uncertainty over Income Tax Treatments</i> ² |

¹ Effective for annual periods beginning on or after January 1, 2018.

² Effective for annual periods beginning on or after January 1, 2019.

³ Effective for annual periods beginning on or after January 1, 2021.

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.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is 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 is 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (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)

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 IFRS 15 Revenue from Contracts with Customers

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 Leases

This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (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 40 *Transfers of Investment Property*

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

IFRS 1: Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

IAS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRS 17 *Insurance Contracts*

This new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021.

IFRIC 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

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 KT Bank AG is Euro (EUR). The presentation currency of the Group is TL.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (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, 2016 | 2.89 | 3.20 |
| December 31, 2016 | 3.52 | 3.71 |
| June 30, 2017 | 3.52 | 4.02 |

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary is (KT Bank AG) 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 EUR/TL 3.94 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, 2016.

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 1.25 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 and Medium 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 30 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 more than TL 30 million and their individual owners except corporate branches.

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 and their individual owners in corporate branches.

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, 2017 (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. 46,038 TL revenue is generated from Kuwait Turkish Participation Bank Dubai Ltd. liquidation transaction and this revenue amounted to 12% of the Group's total profit in the first half of 2017.

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.

| For the period ended June 30, 2017 | Retail Banking | SME Banking | Commercial Banking | Corporate Banking | Treasury, International & Investment Banking | Segments Total | Recon- ciliation | Notes | Grand Total |
|--|-------------------|-------------------|-----------------------|----------------------|---|-------------------|---------------------|-------|-------------------|
| Income from financing activities & sukuk | 257,274 | 460,152 | 412,047 | 404,121 | 134,428 | 1,668,021 | - | | 1,668,021 |
| Intersegment income | 549,073 | (165,623) | (265,691) | (55,428) | (62,332) | - | - | | - |
| Total financing income | 806,347 | 294,529 | 146,355 | 348,693 | 72,096 | 1,668,021 | - | | 1,668,021 |
| Profit shares distributed | (441,624) | (52,218) | (20,425) | (51,773) | (255,009) | (821,049) | 21,554 | (a,b) | (799,495) |
| Credit loss expense | (46,661) | (83,736) | (115,384) | (65,153) | (4,607) | (315,541) | - | | (315,541) |
| Net financing income | 318,062 | 158,575 | 10,545 | 231,767 | (187,519) | 531,430 | 21,554 | | 552,985 |
| Foreign exchange gain/loss, net | 17,863 | 25,181 | 20,383 | 16,477 | 1,616 | 81,520 | - | (b) | 81,520 |
| Net trading income | - | - | - | - | 164,753 | 164,753 | - | | 164,753 |
| Net fees & commission and other income | 58,345 | 70,492 | 43,613 | 86,379 | 22,042 | 280,871 | - | (b) | 280,871 |
| Other expenses | (233,000) | (90,131) | (69,360) | (135,138) | (56,920) | (584,549) | (21,554) | (a,b) | (606,103) |
| Segment profit/(loss) | 161,270 | 164,117 | 5,181 | 199,485 | (56,029) | 474,025 | - | | 474,026 |
| Tax expenses | - | - | - | - | - | - | (103,868) | (c) | (103,868) |
| Net profit for the year | 161,270 | 164,117 | 5,181 | 199,485 | (56,029) | 474,025 | (103,868) | | 370,158 |
| Segment Assets | 7,127,826 | 13,070,964 | 15,922,168 | 3,865,198 | 12,095,443 | 52,081,599 | - | | 52,081,599 |
| Segment Liabilities & Equity | 23,753,363 | 9,892,721 | 3,725,223 | 1,336,397 | 8,770,632 | 47,478,336 | 4,603,263 | (d) | 52,081,599 |

a) 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.

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

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

| For the period ended June 30, 2016 | Retail Banking | SME Banking | Commercial Banking | Corporate Banking | Treasury, International & Investment Banking | Segments Total | Recon- ciliation | Notes | Grand Total |
|---|-------------------|-------------------|-----------------------|----------------------|---|-------------------|---------------------|-------|-------------------|
| Income from financing activities & sukuk | 267,468 | 247,437 | 295,562 | 484,813 | 128,736 | 1,424,016 | - | | 1,424,016 |
| Intersegment income | 420,180 | (60,352) | (155,452) | (250,016) | 45,639 | - | - | | - |
| Total financing income | 687,648 | 187,085 | 140,110 | 234,796 | 174,376 | 1,424,016 | - | | 1,424,016 |
| Profit shares distributed | (347,851) | (42,155) | (15,162) | (35,857) | (241,493) | (682,519) | 15,083 | (a) | (667,436) |
| Credit loss expense | (39,814) | (71,448) | (98,452) | (55,592) | (5,364) | (270,669) | - | | (270,669) |
| Net financing income | 299,983 | 73,483 | 26,496 | 143,347 | (72,482) | 470,827 | 15,084 | | 485,911 |
| Foreign exchange gain/loss, net | 20,454 | 11,639 | 12,096 | 21,578 | 6,515 | 72,282 | (0) | | 72,282 |
| Net trading income | - | - | - | - | 25,946 | 25,946 | - | | 25,946 |
| Net fees & commission and other income | 55,729 | 79,785 | 45,172 | 91,719 | 25,916 | 298,322 | - | | 298,322 |
| Other expenses | (199,648) | (95,450) | (67,486) | (122,828) | (49,211) | (534,623) | (15,083) | (a) | (549,706) |
| Segment profit/(loss) | 176,517 | 69,457 | 16,279 | 133,816 | (63,315) | 332,755 | - | | 332,755 |
| Tax expenses | - | - | - | - | - | - | (59,076) | (b) | (59,076) |
| Net profit for the year | 176,517 | 69,457 | 16,279 | 133,816 | (63,315) | 332,755 | (59,075) | | 273,679 |
| For the period ended December 31, 2016 | | | | | | | | | |
| Segment Assets | 6,452,954 | 12,097,769 | 8,201,624 | 5,445,802 | 16,229,827 | 48,427,976 | - | | 48,427,976 |
| Segment Liabilities & Equity | 20,927,595 | 8,170,790 | 2,097,615 | 2,212,546 | 10,779,571 | 44,188,117 | 4,239,859 | (c) | 48,427,976 |

a) 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.

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

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

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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, 2017 and December 31, 2016:

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Cash on hand | 1,482,428 | 1,615,907 |
| Balances with the Central Bank of Turkey | 55,379 | 259,956 |
| Cash and balances with the Central Bank of Turkey | 1,537,807 | 1,875,863 |
| Balances with banks and other financial institutions | 4,854,168 | 5,979,425 |
| Sub Total | 6,391,975 | 7,855,288 |
| Deposit with maturity more than three months | (306,374) | (119,142) |
| Less: Interbank precious metal deposits | (556,731) | (95,591) |
| Total | 5,528,870 | 7,640,555 |

As of June 30, 2017 and December 31, 2016, "balances with other banks and financial institutions" are include demand and time deposits. The time deposits can be analyzed as follows:

| | June 30, 2017 | | | | | December 31, 2016 | | |
|--|---------------|---|-----------------------|---------------------|----|---|----|-----------------------|
| | Amount | | Effective profit rate | | | Amount | | Effective profit rate |
| | TL | Foreign currency (TL equivalent) | TL | Foreign currency | TL | Foreign currency (TL equivalent) | TL | Foreign currency |
| Deposits with other banks and financial institutions | - | 1,690,040 | - | 0.56% | - | 1,383,293 | - | 0.71% |
| Total | | 1,690,040 | | | | 1,383,293 | | |

5. Financial assets

Available-for-sale

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Financial Sukuk | 4,320,991 | 3,653,310 |
| Unlisted Shares (*) | 16,594 | 16,594 |
| Funds | 97,070 | 81,776 |
| Total available-for-sale financial assets | 4,434,655 | 3,751,680 |

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

| | Nature of business | % | June 30, 2017 | | December 31, 2016 | |
|-------------------------------|-----------------------|--------|------------------|--------|----------------------|---|
| | | | Amount | % | Amount | % |
| Neova Sigorta A.Ş. | Insurance company | 6.99 | 5,201 | 6.99 | 5,201 | |
| Kredi Garanti Fonu A.Ş. (KGF) | Financial institution | 1.69 | 4,719 | 1.69 | 4,719 | |
| Borsa Istanbul A.Ş. | Exchange entity | 0.0035 | 15 | 0.0035 | 15 | |
| VISA INC. | Financial Service | - | 6,659 | - | 6,659 | |
| | | | 16,594 | | 16,594 | |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

5. Financial assets (continued)

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

| | June 30, 2017 | | | | | December 31, 2016 | | |
|-----------------|---------------|----------------------------------|-----------------------|------------------|-----------|-------------------|-------|-----------------------|
| | Amount | | Effective profit rate | | | Amount | | Effective profit rate |
| | TL | Foreign currency (TL equivalent) | TL | Foreign currency | TL | (TL equivalent) | TL | Foreign currency |
| Financial Sukuk | 1,880,939 | 2,440,052 | 9.68% | 3.45% | 1,805,829 | 1,847,481 | 8.74% | 3.61% |
| Total | | 4,320,991 | | | | 3,653,310 | | |

6. Due from financing activities, net

| | June 30, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Performing | | |
| Funds invested from profit/loss sharing accounts | 14,824,145 | 12,599,038 |
| Funds invested from current accounts and equity | 14,833,109 | 12,903,729 |
| Income accruals on due from financing activities (*) | 1,122,216 | 1,493,263 |
| | 30,779,470 | 26,996,030 |
| Funds in arrears | | |
| Funds invested from profit / loss sharing accounts | 424,118 | 386,043 |
| Funds invested from current accounts and equity | 435,786 | 400,444 |
| | 859,904 | 786,487 |
| Total | 31,639,374 | 27,782,517 |
| Impairment allowance | | |
| Funds invested from profit / loss sharing accounts | (332,960) | (268,886) |
| Funds invested from current accounts and equity | (440,205) | (425,755) |
| | (773,165) | (694,641) |
| Total due from financing activities | 30,866,209 | 27,087,876 |

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

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

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6. Due from financing activities, net (continued)

Movement in impairment allowance for funds disbursed is as follows :

| | June 30, 2017 | June 30, 2016 |
|---|------------------|------------------|
| Balance at January 1, | 694,641 | 390,279 |
| Charge for the period | 376,887 | 275,159 |
| Charges for the profit/loss | 219,604 | 177,469 |
| Charge for the profit/loss sharing accounts | 157,283 | 97,690 |
| Recoveries of amounts previously provided for | (187,533) | (64,795) |
| Reserves written off in current period | (110,830) | (51,154) |
| Balance at the end of period | 773,165 | 549,489 |

The impairment allowance of TL 773,165 (June 30, 2016 – TL 549,489) 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, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Gross investment in finance leases | 1,954,121 | 1,745,190 |
| Unearned finance income | (259,044) | (200,647) |
| Total impaired receivables | 16,535 | 13,220 |
| Impairment allowance | (15,230) | (12,126) |
| Minimum lease payments receivable, net | 1,696,382 | 1,545,637 |

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

| | June 30, 2017 | June 30, 2016 |
|--|------------------|------------------|
| Balance at January 1 | 12,126 | 2,940 |
| Charge for the period | 6,060 | 2,228 |
| Charges for the profit/loss | 4,633 | 1,953 |
| Charge for the profit/loss sharing accounts | 1,427 | 275 |
| Recoveries of amounts previously provided for | (2,288) | (66) |
| Impairment allowance written off in current period | (668) | - |
| Balance at the end of the period | 15,230 | 5,102 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

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

Gross investment in finance leases as to their maturity:

| | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Not later than 1 year | 1,123,124 | 1,119,851 |
| Later than 1 year and not later than 5 years | 664,449 | 493,529 |
| Later than 5 years | 166,548 | 131,810 |
| Non-performing receivables | 16,535 | 13,220 |
| Minimum lease payments receivable, gross | 1,970,656 | 1,758,410 |
| Less : Unearned finance income | (259,044) | (200,647) |
| Net investment in finance leases | 1,711,612 | 1,557,763 |
| Less : Allowance for impairment | (15,230) | (12,126) |
| Minimum lease payments receivable, net | 1,696,382 | 1,545,637 |

As of June 30, 2017, TL 1,007,030 (December 31, 2016 - TL 1,288,465) of gross lease receivables is denominated in foreign currency (USD & EUR).

Net investment in finance leases as to their maturity:

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Not later than 1 year (*) | 917,153 | 958,746 |
| Later than 1 year and not later than 5 years | 636,872 | 475,036 |
| Later than 5 years | 157,587 | 123,981 |
| Net investment in finance leases | 1,711,612 | 1,557,763 |

(*) Includes total impaired receivables amounting to TL 16,535 (December 31, 2016 – TL 13,220).

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, 2017 | | December 31, 2016 | |
|--------------|--------------------------------|----------------|--------------------------------|----------------|
| | Foreign currency (full gr.) | TL | Foreign currency (full gr.) | TL |
| Gold (gr.) | 2,705,749 | 381,691 | 5,788,489 | 760,919 |
| Silver (gr.) | 8,809,800 | 16,634 | 22,539,801 | 41,361 |
| | | 398,325 | | 802,280 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

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9. Property and equipment

Acquisitions and disposals

During the six months ended June 30, 2017, the Group acquired assets with a cost of TL 57,055 (June 30, 2016 – TL 55,325).

Assets with a net book value of TL 15,291 were disposed of by the Group during six months ended June 30, 2017 (June 30, 2016 - TL 9,694), resulting in a net profit on loss TL 7,152 (June 30, 2016 – TL 5,426).

As of June 30, 2017 TL 38,437 (June 30, 2016 – TL 35,744) depreciation expenses of tangible assets and TL 9,264 (June 30, 2016 – TL 1,285) depreciation expenses of intangible assets have been charged.

10. Other assets

| | June 30, 2017 | December 31, 2016 |
|-------------------------------------|------------------|----------------------|
| Clearing accounts | 475,074 | 192,677 |
| Blockage for letter of guarantee | 118,983 | 420,596 |
| Prepaid expenses | 64,049 | 42,055 |
| Receivables from banking operations | 9,693 | 7,623 |
| Value added tax (VAT) receivable | 8 | 725 |
| Collateral given to central bank | 401,640 | - |
| Other | 95,301 | 36,811 |
| | 1,164,748 | 700,487 |

11. Sukuk securities issued, Subordinated loans

Sukuk securities

Sukuk securities as of June 30, 2017 and December 31, 2016 are as follows;

| | June 30, 2017 | Amount in TL December 31, 2016 |
|-------------------------------|------------------|--------------------------------------|
| Sukuk certificates issued USD | 3,539,852 | 3,536,069 |
| Sukuk certificates issued TL | 694,093 | 588,915 |
| Sukuk certificates issued MYR | 666,753 | 638,997 |
| Total | 4,900,698 | 4,763,981 |

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11. Sukuk securities issued, Subordinated loans (continued)

Subordinated loans

Subordinated loans as of June 30, 2017 and December 31, 2016 are as follows;

| | Amount in TL | |
|---|------------------|----------------------|
| | June 30, 2017 | December 31, 2016 |
| Subordinated loan provided by Kuwait Finance House ⁽¹⁾ | - | 713,881 |
| Subordinated loan provided by other foreign banks ⁽²⁾ | 1,267,450 | 1,267,765 |
| Total | 1,267,450 | 1,981,646 |

⁽¹⁾ The Bank obtained a subordinated loan with 10-years maturity, amounting to USD 200 million, from Kuwait Finance House on September 29, 2011. Profit share amount will be calculated as the purchase price multiplied by a profit return rate equal to the applicable margin in the Murabaha period. Classification of this subordinated loan as tier-II capital upon the receipt of the cash amounting to USD 200 million by the Bank for the purpose of supplementary capital calculation was confirmed by the BRSA by their notification dated September 30, 2011. In order to comply with the amendments made in the Regulation Regarding the Equity of Banks published by the BRSA which entered into force as of March 31, 2016, the related loan agreement was amended as of March 29, 2016 and according to the BRSA correspondence dated April 25, 2016 the loan was deemed appropriate to taken into account as tier-II capital. The Bank closed related tier-II loan as of March 30, 2017 using the early payment option.

⁽²⁾ On 17 February 2016, Kuwait Turkish Participation Bank, has obtained a subordinated loan amounting to USD 350 million by issued sukuk of its Special Purpose Vehicle (SPV) KT Sukuk Company Limited in Cayman Islands in accordance with Regulation on the Capital Adequacy requirements of BRSA. According to BRSA Letter of Conformity dated September 2, 2015 and numbered 20008792101.01[93]E.12819, the loan is included in the calculation of capital contribution to the Bank / sukuk annual rate of return is 7.90%, 5 year maturity and repayment option at the end of the Bank it is determined as 10 years. Sukuk returns under the said payment, the implementation of the transfer price of the assets, expressed as a yearly rate of return will be calculated by and principal will be made in two equal installments on July 17 and February 17 each year.

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12. Current and profit loss sharing investors' accounts

| | June 30, 2017 | December 31, 2016 |
|--|-------------------|----------------------|
| Current accounts: | | |
| Turkish Lira | 6,339,070 | 5,946,657 |
| Foreign currency | 8,206,814 | 6,047,823 |
| | 14,545,884 | 11,994,480 |
| Profit/loss sharing investors' accounts: | | |
| Turkish Lira | 12,345,447 | 11,948,950 |
| Foreign currency | 9,763,380 | 7,969,594 |
| | 22,108,827 | 19,918,544 |
| Blocked accounts: | | |
| Turkish Lira | 68,869 | 28,152 |
| Foreign currency | 4,592 | 5,383 |
| | 73,461 | 33,535 |
| Total current accounts and profit/loss investors' accounts | 36,728,172 | 31,946,559 |
| Expense accrual on current accounts and profit/loss sharing investors' accounts | 74,205 | 69,494 |
| Total current accounts and profit/loss sharing investors' accounts | 36,802,377 | 32,016,053 |

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, 2017. This rate was 20% for the six month period ended June 30, 2016 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 2017 is 20% (2016: 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.

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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 July 23, 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, 2017 | December 31, 2016 |
|-----------------------------|------------------|----------------------|
| Current tax expense | 104,925 | 124,838 |
| Prepaid tax (-) | (31,209) | (96,987) |
| Income taxes payable | 73,716 | 27,851 |

| | June 30, 2017 | June 30, 2016 |
|--------------------------------|------------------|------------------|
| Current tax expense | 103,156 | 42,964 |
| Deferred tax charge / (credit) | 712 | 16,112 |
| Total income tax charge | 103,868 | 59,076 |

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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13. Income taxes (continued)

Deferred income tax as of June 30, 2017 and December 31, 2016 are attributable to the following items :

| | Deferred tax assets / (liabilities) | |
|---|--|------------------------------|
| | June 30, 2017 | December 31, 2016 |
| Provision for impairment in due from financing activities | 7,157 | 8,728 |
| Reserve for employee termination benefits | 12,588 | 11,058 |
| Deferred income | 36,486 | 29,683 |
| Bonus accrual of personnel | 10,419 | 14,755 |
| Impairment provision for subsidiaries, fixed assets and assets held for sale | 36,439 | 36,641 |
| Derivative accrual | 30,156 | 27,731 |
| Deferred tax accounted under shareholders' equity | - | 12,621 |
| Deferred tax assets | 133,245 | 141,217 |
| Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items | (7,521) | (7,754) |
| Provision for non-cash loans and check commitments | (19,556) | (15,874) |
| Deferred tax accounted under shareholders' equity | 997 | - |
| Effect of precious metals valuation | (96) | (3,131) |
| Effect of other temporary differences | (4,665) | (4,048) |
| Deferred tax liabilities | (30,841) | (30,807) |
| Deferred tax asset – net | 102,404 | 110,410 |

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

| | June 30, 2017 | June 30, 2016 |
|--|--------------------------|--------------------------|
| Balance at the beginning of the year | 110,410 | 98,469 |
| Deferred income tax recognized in profit or loss | (712) | (16,112) |
| Deferred income tax relating to other comprehensive income | (7,294) | (5,233) |
| Balance at the end of the period | 102,404 | 77,124 |

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14. Share capital and other reserves

Share capital

| | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Number of common shares, 1 TL, par value. Authorized, issued and outstanding. | 3,097 million | 2,787 million |

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

| | June 30, 2017 | | June 30, 2016 | |
|---------------------------------------|---------------|-----------|---------------|-----------|
| | Number | TL | Number | TL |
| At January 1 | 2,787,322,000 | 2,787,322 | 2,527,322,000 | 2,527,322 |
| Shares issued in | | | | |
| - cash | - | - | - | - |
| - bonus shares from retained earnings | 310,000,000 | 310,000 | 260,000,000 | 260,000 |
| - other | - | - | - | - |
| At June 30 | 3,097,322,000 | 3,097,322 | 2,787,322,000 | 2,787,322 |

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, 2017 and December 31, 2016, the composition of shareholders and their respective % of ownership can be summarized as follows :

| | June 30, 2017 | | December 31, 2016 | |
|--|---------------|-------|-------------------|-------|
| | Amount | % | Amount | % |
| Kuwait Finance House | 1,927,773 | 62.24 | 1,737,136 | 62.33 |
| Directorate of Vakıf Foundations, Turkey | 579,819 | 18.72 | 522,449 | 18.74 |
| The Public Institution for Social Security, Kuwait | 278,759 | 9.00 | 251,187 | 9.01 |
| Islamic Development Bank | 278,759 | 9.00 | 251,187 | 9.01 |
| Other | 32,212 | 1.04 | 25,363 | 0.91 |
| Total share capital | 3,097,322 | 100 | 2,787,322 | 100 |

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017
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15. Dividends paid and proposed

Dividends paid and proposed

During the current period, the Bank has paid a dividend of TL 4,291 (June 30, 2016 – TL 3,399) from the profit of the year 2016.

| | June 30, 2017 | June 30, 2016 |
|------------------------|------------------|------------------|
| Ordinary shares | | |
| Amount | 4,291 | 3,399 |

In the Ordinary General Assembly Meeting dated March 28, 2017, the Bank decided on reserving primary reserves amount to TL 27,098; other reserves amount to TL 51,007 funded via retained profit from sales of real estates, cash dividend; dividend to management amount to TL 4,291; funding capital increase from internal sources via remaining net income amount to TL 121,801 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 430 and remaining amount to 336,679 to extraordinary legal reserves, other reserve amount to TL 660 which obtained from research and development activities according to Law No. 5746 under Articles 3, funding capital increase from internal sources.

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, 2017 and December 31, 2016 :

| | June 30, 2017 | December 31, 2016 |
|---|-------------------|----------------------|
| Letters of guarantee issued by the Bank | 9,252,120 | 8,116,025 |
| Letters of credits | 996,656 | 1,019,786 |
| Commitments | 5,490,646 | 3,281,611 |
| Acceptance credits | 75,632 | 52,044 |
| Other guarantees | 393,393 | 701,362 |
| Total | 16,208,447 | 13,170,828 |

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, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Within one year | 5,088 | 14 |
| After one year but not more than five years | 275,888 | 247,117 |
| More than five years | 484,509 | 474,424 |
| Total | 765,485 | 721,555 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

16. Commitments and contingencies (continued)

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. As of June 30, 2017, the amount of the checks are TL 6,309,260 (December 31, 2016 – TL 5,831,286) and the bonds in collection are TL 1,260,384 (December 31, 2016 - TL 1,175,022).

17. Other Liabilities and provisions

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Clearing accounts | 516,170 | 228,575 |
| Withholding tax and other tax payables | 58,271 | 57,384 |
| Payables to exporters and suppliers | 29,347 | 24,436 |
| Security premium for participation funds | 20,523 | 18,287 |
| Deferred revenue for non-cash loans | 15,007 | 11,099 |
| Deductions on resource utilization fund | 1,809 | 1,753 |
| Other provisions and liabilities | 238,218 | 183,789 |
| | 879,345 | 525,323 |

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Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

18. 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, 2017 and December 31, 2016 and also transactions which have been entered into with related parties during the six months period ended June 30, 2017 and 2016.

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

| | | June 30, 2017 | | December 31, 2016 | |
|-------------------------------------|---------------|----------------------------|---------------|----------------------------|---------------|
| | | Foreign currency (full) | TL equivalent | Foreign currency (full) | TL equivalent |
| Kuwait Finance House ⁽¹⁾ | Kuwaiti Dinar | 196,373 | 2,279 | 82,190 | 941 |
| | XAU (gr.) | 114,800 | 16,194 | 112,369 | 14,771 |
| KFH – Bahrain | BHD | 18,693 | 174 | 21,339 | 199 |
| | US\$ | 117,772 | 414 | 103,219 | 363 |
| Auto Land A.S. | TL | - | 83,492 | - | 72,473 |
| Kuwait finance Malaysia | US\$ | 5,063 | 18 | 5,063 | 18 |
| | XAU(gr) | - | - | - | - |
| Other related parties | - | - | 62,767 | - | 63,903 |
| | | 165,338 | | 152,668 | |

⁽¹⁾ Shareholders

ii) Due to banks & other financial institutions:

| | | June 30, 2017 | | December 31, 2016 | |
|--|------|----------------------------|------------------|----------------------------|------------------|
| | | Foreign currency (full) | TL equivalent | Foreign currency (full) | TL Equivalent |
| Public Institute for Social Securities KW ⁽¹⁾ | US\$ | 164,676,461 | 579,480 | 221,784,496 | 780,504 |
| Kuwait Finance House ⁽¹⁾ | US\$ | 470,978,147 | 1,657,325 | 414,976,131 | 1,460,384 |
| | | 2,236,805 | | 2,240,888 | |

⁽¹⁾ Shareholders

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

18. Related party disclosures (continued)

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

| | | June 30, 2017 | | June 30, 2016 | |
|--|------|----------------------------|------------------|----------------------------|------------------|
| | | Foreign currency (full) | TL equivalent | Foreign currency (full) | TL equivalent |
| Kuwait Finance House ⁽¹⁾ | US\$ | 2,519,102 | 8,864 | 3,991,706 | 27,654 |
| Kuwait Finance House ⁽¹⁾ | TL | - | - | - | - |
| Islamic Development Bank ⁽¹⁾ | US\$ | 5,146 | 18 | - | - |
| Kuwait Finance House Malaysia | XAU | 599,547 | 84,576 | - | - |
| Kuwait Finance House Bahrain | US\$ | 1,251 | 4 | - | - |
| Directorate of Vakıf Foundations, Turkey ⁽¹⁾ | TL | - | 33,011 | - | 629 |
| Neova Sigorta (*) | TL | - | 151,465 | - | 641 |
| Neova Sigorta (*) | US\$ | 57,897 | 204 | - | - |
| Neova Sigorta (*) | EUR | 614 | 2 | - | - |
| Public Institute for Social Securities KW ⁽¹⁾ | US\$ | 166,049 | 584 | 1,341,308 | 3,914 |
| | | | 278,728 | | 32,838 |

(1) Shareholders

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

iv) Profit shares distributed :

| | | June 30, 2017 | | June 30, 2016 | |
|--|------|----------------------------|------------------|----------------------------|------------------|
| | | Foreign currency (full) | TL equivalent | Foreign currency (full) | TL equivalent |
| Kuwait Finance House ⁽¹⁾ | US\$ | 5,362,677 | 19,504 | 3,991,706 | 11,648 |
| Directorate of Vakıf Foundations, Turkey ⁽¹⁾ | TL | - | 1,451 | - | 629 |
| Neova Sigorta (*) | TL | - | 3,451 | - | 641 |
| Public Institute for Social Securities KW ⁽¹⁾ | US\$ | 1,563 | 6 | 571 | 2 |
| | | | 24,412 | | 12,920 |

(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, 2017 | | December 31, 2016 | |
|-------------------------------------|------|----------------------------|------------------|----------------------------|------------------|
| | | Foreign currency (full) | TL equivalent | Foreign currency (full) | TL equivalent |
| Kuwait Finance House ⁽¹⁾ | US\$ | 10,421,667 | 36,673 | 10,378,355 | 36,524 |
| Kuwait Finance Malaysia | US\$ | 40,000 | 141 | 40,000 | 140 |
| Other related parties | TL | - | 474 | - | 575 |
| | | | 37,288 | | 37,239 |

(1) Shareholders

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Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

18. Related party disclosures (continued)

Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 20,546 during the six months period ended June 30, 2017 (For the six months ended June 30, 2016 - TL 15,337).

The key management personnel of the Bank are as follows;

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

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

19. 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 June 30, 2017, the fair value of financing and leasing receivables has been estimated as TL 32,173,409 (December 31, 2016 – TL 28,358,119) whereas their carrying amount is TL 32,562,591 (December 31, 2016 – TL 28,633,513).

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, 2017 are given in the table below:

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19. Fair value of financial instruments (continued)

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, 2017 are given in the table below:

| Current Period | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|----------------|----------------|------------------|
| Financial assets | | | | |
| Financial assets held for trading | 107,166 | 28,429 | - | 135,595 |
| Forward transactions | - | 20,649 | - | 20,649 |
| Swap transactions | - | 7,780 | - | 7,780 |
| Sukuk held for trading | 107,166 | - | - | 107,166 |
| Available-for-sale financial assets | 4,320,991 | - | - | 4,320,991 |
| Government debt securities | 3,608,926 | - | - | 3,608,926 |
| Other marketable securities | 712,065 | - | - | 712,065 |
| Financial liabilities | | | | |
| Financial liabilities held for trading | - | 187,218 | - | 187,218 |
| Forward transactions | - | 14,354 | - | 14,354 |
| Swap transactions | - | 172,864 | - | 172,864 |
| Prior Period | | | | |
| Financial assets | | | | |
| Financial assets held for trading | 56,323 | 110,049 | - | 166,372 |
| Forward transactions | - | 22,304 | - | 22,304 |
| Swap transactions | - | 87,745 | - | 87,745 |
| Sukuk held for trading | 56,323 | - | - | 56,323 |
| Available-for-sale financial assets | 3,653,310 | - | - | 3,653,310 |
| Government debt securities | 2,944,445 | - | - | 2,944,445 |
| Other marketable securities | 708,865 | - | - | 708,865 |
| Financial liabilities | | | | |
| Financial liabilities held for trading | - | 257,556 | - | 257,556 |
| Forward transactions | - | 16,753 | - | 16,753 |
| Swap transactions | - | 240,803 | - | 240,803 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

20. Financial risk management

Introduction

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

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

Organization of the risk management function

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

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

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

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

Internal systems and risk management policies

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

20. 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.

Liquidity risk

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

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20. 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 June 30, 2017 | | | | | | |
| Due to other financial institutions and banks | - | 399,906 | 559,413 | 2,271,431 | 78,150 | 3,308,900 |
| Subordinated loans | - | 48,649 | 48,649 | 389,190 | 1,620,805 | 2,107,293 |
| Sukuk issued | - | - | 672,006 | 49,124 | 5,269,929 | 5,991,059 |
| Minimum finance lease payable | - | 62 | - | - | - | 62 |
| Derivative financial instruments (*) | - | 16,239,164 | 2,455,975 | 246,735 | 1,418,547 | 20,360,421 |
| Current accounts | 14,545,884 | - | - | - | - | 14,545,884 |
| Profit and loss sharing accounts (**) | - | 17,889,388 | 3,410,107 | 914,158 | 42,840 | 22,256,493 |
| Total undiscounted financial liabilities | 14,545,884 | 34,577,169 | 7,146,150 | 3,870,638 | 8,430,271 | 68,570,112 |
| As at December 31, 2016 | | | | | | |
| Due to other financial institutions and banks | - | 54,700 | 808,893 | 2,395,212 | 57,974 | 3,316,779 |
| Subordinated loans | - | 16,258 | 16,258 | 129,801 | 1,967,899 | 2,130,216 |
| Sukuk issued | - | 56,812 | 705,605 | 312,621 | 4,147,352 | 5,222,390 |
| Money market balances | - | 1,258,349 | - | - | - | 1,258,349 |
| Minimum finance lease payable | - | - | 223 | - | - | 223 |
| Derivative financial instruments (*) | - | 7,885,060 | 1,437,230 | 4,929 | 762,972 | 10,090,191 |
| Current accounts | 11,994,480 | - | - | - | - | 11,994,480 |
| Profit and loss sharing accounts (**) | - | 16,188,142 | 3,418,151 | 414,116 | 1,164 | 20,021,573 |
| Total undiscounted financial liabilities | 11,994,480 | 25,459,321 | 6,386,360 | 3,256,679 | 6,937,361 | 54,034,201 |

(*) 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 |
|--|-------------------|--------------------|------------------|------------------|----------------|-------------------|
| June 30, 2017 | | | | | | |
| Contingent liabilities and other guarantees(*) | 5,289,849 | 1,087,254 | 2,475,498 | 1,751,369 | 113,831 | 10,717,801 |
| Commitments | 5,490,646 | - | - | - | - | 5,490,646 |
| Total | 10,780,495 | 1,087,254 | 2,475,498 | 1,751,369 | 113,831 | 16,208,447 |
| December 31, 2016 | | | | | | |
| Contingent liabilities and other guarantees | 4,461,265 | 1,087,254 | 2,475,498 | 1,751,369 | 113,831 | 9,889,217 |
| Commitments | 3,281,611 | - | - | - | - | 3,281,611 |
| Total | 7,742,876 | 1,087,254 | 2,475,498 | 1,751,369 | 113,831 | 13,170,828 |

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

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

20. Financial risk management (continued)

Market risk

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

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

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

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

Market risk – Non-trading

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

| Precious metal | June 30, 2017 | | | December 31, 2016 | | |
|----------------|--|-----------------------------------|---------------------|--|-----------------------------------|---------------------|
| | 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 |
| Gold | -10 | 564 | - | -10 | 51,250 | - |
| Gold | +10 | (564) | - | +10 | (51,250) | - |

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 | June 30, 2017 | | | December 31, 2016 | | |
|----------|--|-----------------------------------|---------------------|--|-----------------------------------|---------------------|
| | 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 | 9,886 | 8,780 | +10 | 14,755 | 11,720 |
| USD | -10 | (9,886) | (8,780) | -10 | (14,755) | (11,720) |
| EUR | +10 | 3,049 | 3,049 | +10 | 21,166 | 21,166 |
| EUR | -10 | (3,049) | (3,049) | -10 | (21,166) | (21,166) |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

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Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

20. Financial risk management (continued)

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

June 30, 2017

| | EUR | USD | Other | Precious Metals | Total |
|---|--------------------|--------------------|------------------|------------------|-------------------|
| Cash and balances with the Central bank | 275,079 | 750,190 | 60,008 | 789 | 1,086,066 |
| Deposits with other banks and financial institutions | 1,800,340 | 2,390,617 | 90,507 | 556,731 | 4,838,195 |
| Reserve deposits at the Central Bank | 410,684 | 4,210,089 | - | 1,488,851 | 6,109,624 |
| Financial assets – available-for-sale | 24,958 | 2,462,974 | - | - | 2,487,932 |
| Financial assets – held for trading | 102 | 69,897 | 601 | - | 70,600 |
| Due from financing activities, net | 3,565,747 | 6,908,058 | 3,933 | 68,004 | 10,545,742 |
| Minimum finance lease payments receivable, net | 550,310 | 456,720 | - | - | 1,007,030 |
| Precious metals | - | - | - | 398,325 | 398,325 |
| Other assets | 492,469 | 56,086 | 1,895 | 154 | 550,604 |
| Property and equipment, net | 5,701 | - | - | - | 5,701 |
| Intangible assets, net | 46,445 | - | - | - | 46,445 |
| Total assets | 7,171,835 | 17,304,631 | 156,944 | 2,512,854 | 26,776,264 |
| Due to other financial institutions and banks | 127,942 | 2,975,709 | 70,908 | - | 3,174,559 |
| Sukuk issued | - | 3,539,852 | 666,753 | - | 4,206,605 |
| Subordinated loans | - | 1,267,450 | - | - | 1,267,450 |
| Current and profit / loss sharing investors' accounts | 3,490,951 | 11,493,461 | 157,804 | 2,845,172 | 17,987,388 |
| Other liabilities & provisions | 61,080 | 138,287 | 23,908 | 529 | 223,804 |
| Derivative financial instruments | - | 172,583 | 570 | - | 173,153 |
| Total liabilities and equity | 3,679,973 | 19,587,342 | 919,943 | 2,845,701 | 27,032,959 |
| Net balance sheet position | 3,491,862 | (2,282,711) | (762,999) | (332,847) | (113,305) |
| Net off-balance sheet position | (3,461,370) | 2,381,573 | 761,644 | 327,204 | 9,051 |
| Net position | 30,492 | 98,862 | (1,355) | (5,643) | 122,356 |

The policies and explanatory notes on pages 6 through 36 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2017 (Currency - In thousands of Turkish Lira - TL)

20. Financial risk management (continued)

December 31, 2016

| | EUR | USD | Other | Precious Metals | Total |
|---|--------------------|--------------------|------------------|------------------|--------------------|
| Cash and balances with the Central bank | 378,584 | 720,778 | 67,561 | 19,657 | 1,186,580 |
| Deposits with other banks and financial institutions | 4,702,569 | 1,088,544 | 108,929 | 95,591 | 5,995,633 |
| Reserve deposits at the Central Bank | 370,990 | 3,927,014 | - | 1,380,247 | 5,678,251 |
| Financial assets – available-for-sale | 17,327 | 1,900,932 | - | - | 1,918,259 |
| Financial assets – held for trading | - | 126,015 | - | - | 126,015 |
| Due from financing activities, net | 3,278,547 | 7,081,879 | 5 | 108,137 | 10,468,568 |
| Minimum finance lease payments receivable, net | 504,505 | 683,959 | - | - | 1,188,464 |
| Precious metals | - | - | - | 802,280 | 802,280 |
| Other assets | 409,892 | 1,614 | 139 | 6 | 411,651 |
| Property and equipment, net | 5,469 | 89 | - | - | 5,558 |
| Intangible assets, net | 45,138 | - | - | - | 45,138 |
| Total assets | 9,713,021 | 15,530,824 | 176,634 | 2,405,918 | 27,826,397 |
| Due to other financial institutions and banks | 95,477 | 3,118,503 | - | - | 3,213,980 |
| Sukuk issued | - | 3,536,069 | 638,997 | - | 4,175,066 |
| Subordinated loans | - | 1,981,646 | - | - | 1,981,646 |
| Money market balances | - | - | - | - | - |
| Current and profit / loss sharing investors' accounts | 2,937,259 | 8,545,795 | 123,059 | 2,339,522 | 13,945,635 |
| Other liabilities & provisions | 20,933 | 41,326 | 5,005 | 372 | 67,636 |
| Derivative financial instruments | - | 216,960 | 16 | - | 216,976 |
| Total liabilities and equity | 3,053,669 | 17,440,299 | 767,077 | 2,339,894 | 23,600,939 |
| Net balance sheet position | 6,659,352 | (1,909,475) | (590,443) | 66,024 | 4,225,458 |
| Net off-balance sheet position | (6,447,687) | 1,761,924 | 86,906 | 446,475 | (4,152,382) |
| Net position | 30,492 | 98,862 | (1,355) | (5,643) | 122,356 |

21. Subsequent events:

The Bank has decided to sell its 50% shareholding in KT Portföy Yönetimi A.Ş. to KFH Capital Investment Company K.S.C.C. with resolution of Board of Directors numbered 1691 dated July 26, 2017 amounting to TL 16,901.