

**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
<b>Assets</b>			
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
		<b>52,042,289</b>	<b>48,385,309</b>
Assets and a disposal group held for sale		39,310	42,667
<b>Total assets</b>		<b>52,081,599</b>	<b>48,427,976</b>
<b>Liabilities and equity</b>			
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
<b>Total liabilities</b>		<b>47,478,336</b>	<b>44,188,117</b>
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)
<b>Total equity attributable to equity holders of the parent</b>		<b>4,600,971</b>	<b>4,237,799</b>
Non-controlling interest		2,292	2,060
<b>Total liabilities and equity</b>		<b>52,081,599</b>	<b>48,427,976</b>

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
<b>Continuing operations</b>			
<b>Income from financing activities:</b>			
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
<b>Total income from financing activities</b>		<b>1,668,021</b>	<b>1,424,016</b>
Profit shares distributed to participation accounts		(553,720)	(427,315)
Profit shares distributed to banks and financial institutions		(245,775)	(240,121)
<b>Net financing income</b>		<b>868,526</b>	<b>756,580</b>
Provision for impairment in due from financing activities and lease receivables, net		(315,541)	(270,669)
<b>Net financing income after reserve for impairment in due from financing activities and lease receivables</b>		<b>552,985</b>	<b>485,911</b>
Foreign exchange gain, net		81,520	72,282
<b>Net financing income after net foreign exchange gain</b>		<b>634,505</b>	<b>558,193</b>
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	-
<b>Total other operating income</b>		<b>524,469</b>	<b>392,103</b>
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)
<b>Total other operating expense</b>		<b>(684,948)</b>	<b>(617,541)</b>
<b>Profit before income tax</b>		<b>474,026</b>	<b>332,755</b>
Current tax charge	13	(103,156)	(42,964)
Deferred tax (charge) / credit	13	(712)	(16,112)
<b>Net income for the period</b>		<b>370,158</b>	<b>273,679</b>
<b>Other comprehensive income for the period, Items that may be reclassified subsequently to profit or loss:</b>		<b>(77,162)</b>	<b>876</b>
Exchange differences on translation of the foreign subsidiary		(77,162)	876
<b>Available-for-sale investments reserve</b>		<b>42,560</b>	<b>20,903</b>
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)
<b>Total comprehensive income for the period</b>		<b>367,463</b>	<b>295,084</b>
<b>Attributable to:</b>			
- 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
<b>Balances at January 1, 2016</b>		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
<b>Balances at June 30, 2016</b>		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
<b>Balances at January 1, 2017</b>		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
<b>Balances at June 30, 2017</b>		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
<b>Cash flows from operating activities:</b>			
Net profit before income tax		474,026	332,755
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>			
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)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>924,416</b>	<b>453,282</b>
<b>Net changes in :</b>			
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)
<b>Net cash provided from / (used in) operating activities</b>		<b>623,234</b>	<b>1,445,829</b>
<b>Cash flows from investing activities:</b>			
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
<b>Net cash used in investing activities</b>		<b>(806,665)</b>	<b>(872,398)</b>
<b>Cash flows from financing activities:</b>			
Dividends paid		(4,291)	(3,399)
Increase in due to financial institutions and banks		(1,907,163)	604,451
<b>Net cash provided by financing activities</b>		<b>1,911,454</b>	<b>601,052</b>
<b>Net increase in cash and cash equivalents</b>		<b>(2,094,831)</b>	<b>(1,717,175)</b>
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
<b>Cash and cash equivalents at the end of the period</b>	<b>4</b>	<b>5,528,870</b>	<b>4,851,290</b>

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> <sup>1</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 12</i> <sup>1</sup>

<sup>1</sup> 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> <sup>1</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> <sup>1</sup>
IFRS 16	<i>Leases</i> <sup>2</sup>
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> <sup>1</sup>
Amendments to IAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1</i> <sup>1</sup> , <i>IAS 28</i> <sup>1</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2019.

<sup>3</sup> 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)	-	-		-
<b>Total financing income</b>	<b>806,347</b>	<b>294,529</b>	<b>146,355</b>	<b>348,693</b>	<b>72,096</b>	<b>1,668,021</b>	<b>-</b>		<b>1,668,021</b>
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)
<b>Net financing income</b>	<b>318,062</b>	<b>158,575</b>	<b>10,545</b>	<b>231,767</b>	<b>(187,519)</b>	<b>531,430</b>	<b>21,554</b>		<b>552,985</b>
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)
<b>Segment profit/(loss)</b>	<b>161,270</b>	<b>164,117</b>	<b>5,181</b>	<b>199,485</b>	<b>(56,029)</b>	<b>474,025</b>	<b>-</b>		<b>474,026</b>
Tax expenses	-	-	-	-	-	-	(103,868)	(c)	(103,868)
<b>Net profit for the year</b>	<b>161,270</b>	<b>164,117</b>	<b>5,181</b>	<b>199,485</b>	<b>(56,029)</b>	<b>474,025</b>	<b>(103,868)</b>		<b>370,158</b>
<b>Segment Assets</b>	<b>7,127,826</b>	<b>13,070,964</b>	<b>15,922,168</b>	<b>3,865,198</b>	<b>12,095,443</b>	<b>52,081,599</b>	<b>-</b>		<b>52,081,599</b>
<b>Segment Liabilities &amp; Equity</b>	<b>23,753,363</b>	<b>9,892,721</b>	<b>3,725,223</b>	<b>1,336,397</b>	<b>8,770,632</b>	<b>47,478,336</b>	<b>4,603,263</b>	<b>(d)</b>	<b>52,081,599</b>

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.

## 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)

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	-	-		-
<b>Total financing income</b>	<b>687,648</b>	<b>187,085</b>	<b>140,110</b>	<b>234,796</b>	<b>174,376</b>	<b>1,424,016</b>	<b>-</b>		<b>1,424,016</b>
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)
<b>Net financing income</b>	<b>299,983</b>	<b>73,483</b>	<b>26,496</b>	<b>143,347</b>	<b>(72,482)</b>	<b>470,827</b>	<b>15,084</b>		<b>485,911</b>
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)
<b>Segment profit/(loss)</b>	<b>176,517</b>	<b>69,457</b>	<b>16,279</b>	<b>133,816</b>	<b>(63,315)</b>	<b>332,755</b>	<b>-</b>		<b>332,755</b>
Tax expenses	-	-	-	-	-	-	(59,076)	(b)	(59,076)
<b>Net profit for the year</b>	<b>176,517</b>	<b>69,457</b>	<b>16,279</b>	<b>133,816</b>	<b>(63,315)</b>	<b>332,755</b>	<b>(59,075)</b>		<b>273,679</b>
<b>For the period ended December 31, 2016</b>									
<b>Segment Assets</b>	<b>6,452,954</b>	<b>12,097,769</b>	<b>8,201,624</b>	<b>5,445,802</b>	<b>16,229,827</b>	<b>48,427,976</b>	<b>-</b>		<b>48,427,976</b>
<b>Segment Liabilities &amp; Equity</b>	<b>20,927,595</b>	<b>8,170,790</b>	<b>2,097,615</b>	<b>2,212,546</b>	<b>10,779,571</b>	<b>44,188,117</b>	<b>4,239,859</b>	(c)	<b>48,427,976</b>

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.



## 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)

#### 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
<b>Cash and balances with the Central Bank of Turkey</b>	<b>1,537,807</b>	<b>1,875,863</b>
Balances with banks and other financial institutions	4,854,168	5,979,425
<b>Sub Total</b>	<b>6,391,975</b>	<b>7,855,288</b>
Deposit with maturity more than three months	(306,374)	(119,142)
Less: Interbank precious metal deposits	(556,731)	(95,591)
<b>Total</b>	<b>5,528,870</b>	<b>7,640,555</b>

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		
	Foreign currency (TL equivalent)		Foreign currency		Foreign currency (TL equivalent)		Foreign currency	
	TL	TL	TL	TL	TL	TL	TL	
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
<b>Total available-for-sale financial assets</b>	<b>4,434,655</b>	<b>3,751,680</b>

(\*) 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	5,201
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	1.69	4,719	4,719
Borsa İstanbul A.Ş.	Exchange entity	0.0035	15	15
VISA INC.	Financial Service	-	6,659	6,659
			<b>16,594</b>	<b>16,594</b>

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%
<b>Total</b>		<b>4,320,991</b>				<b>3,653,310</b>		

### 6. Due from financing activities, net

	June 30, 2017	December 31, 2016
<b>Performing</b>		
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
	<b>30,779,470</b>	<b>26,996,030</b>
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	424,118	386,043
Funds invested from current accounts and equity	435,786	400,444
	<b>859,904</b>	<b>786,487</b>
<b>Total</b>	<b>31,639,374</b>	<b>27,782,517</b>
<b>Impairment allowance</b>		
Funds invested from profit / loss sharing accounts	(332,960)	(268,886)
Funds invested from current accounts and equity	(440,205)	(425,755)
	<b>(773,165)</b>	<b>(694,641)</b>
<b>Total due from financing activities</b>	<b>30,866,209</b>	<b>27,087,876</b>

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

## 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)

#### 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)
<b>Balance at the end of period</b>	<b>773,165</b>	<b>549,489</b>

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)
<b>Minimum lease payments receivable, net</b>	<b>1,696,382</b>	<b>1,545,637</b>

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)	-
<b>Balance at the end of the period</b>	<b>15,230</b>	<b>5,102</b>

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)**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
<b>Minimum lease payments receivable, gross</b>	<b>1,970,656</b>	<b>1,758,410</b>
<b>Less : Unearned finance income</b>	<b>(259,044)</b>	<b>(200,647)</b>
Net investment in finance leases	1,711,612	1,557,763
Less : Allowance for impairment	(15,230)	(12,126)
<b>Minimum lease payments receivable, net</b>	<b>1,696,382</b>	<b>1,545,637</b>

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
<b>Net investment in finance leases</b>	<b>1,711,612</b>	<b>1,557,763</b>

(\*) 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
		<b>398,325</b>		<b>802,280</b>

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)

#### 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
	<b>1,164,748</b>	<b>700,487</b>

#### 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
<b>Total</b>	<b>4,900,698</b>	<b>4,763,981</b>

## 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)

#### 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 <sup>(1)</sup>	-	713,881
Subordinated loan provided by other foreign banks <sup>(2)</sup>	1,267,450	1,267,765
<b>Total</b>	<b>1,267,450</b>	<b>1,981,646</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

## 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)

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

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

#### 13. Income taxes

##### Corporate Tax

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

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base for the six month period ended June 30, 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.

## 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)

#### 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)
<b>Income taxes payable</b>	<b>73,716</b>	<b>27,851</b>

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



# 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)

### 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
<b>Deferred tax assets</b>	<b>133,245</b>	<b>141,217</b>
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)
<b>Deferred tax liabilities</b>	<b>(30,841)</b>	<b>(30,807)</b>
<b>Deferred tax asset – net</b>	<b>102,404</b>	<b>110,410</b>

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)
<b>Balance at the end of the period</b>	<b>102,404</b>	<b>77,124</b>

## 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)

#### 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 (Currency - In thousands of Turkish Lira - TL)

#### 15. Dividends paid and proposed

##### Dividends paid and proposed

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

	June 30, 2017	June 30, 2016
<b>Ordinary shares</b>		
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
<b>Total</b>	<b>16,208,447</b>	<b>13,170,828</b>

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

Future minimum rental payables under operating leases are as follows :

	June 30, 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
<b>Total</b>	<b>765,485</b>	<b>721,555</b>

## 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

## 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

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 <sup>(1)</sup>	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	

<sup>(1)</sup> 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 <sup>(1)</sup>	US\$	164,676,461	579,480	221,784,496	780,504
Kuwait Finance House <sup>(1)</sup>	US\$	470,978,147	1,657,325	414,976,131	1,460,384
		2,236,805		2,240,888	

<sup>(1)</sup> 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 <sup>(1)</sup>	US\$	2,519,102	8,864	3,991,706	27,654
Kuwait Finance House <sup>(1)</sup>	TL	-	-	-	-
Islamic Development Bank <sup>(1)</sup>	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 <sup>(1)</sup>	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 <sup>(1)</sup>	US\$	166,049	584	1,341,308	3,914
			<b>278,728</b>		<b>32,838</b>

(1) Shareholders

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

#### iv) Profit shares distributed :

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

(1) Shareholders

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

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

		June 30, 2017		December 31, 2016	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	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
			<b>37,288</b>		<b>37,239</b>

(1) Shareholders

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)

#### 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:

# 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)

### 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
<b>Financial assets</b>				
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
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	187,218	-	187,218
Forward transactions	-	14,354	-	14,354
Swap transactions	-	172,864	-	172,864
Prior Period	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
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
<b>Financial liabilities</b>				
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.

## **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)**

##### **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.

## 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)

##### 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
<b>As at June 30, 2017</b>						
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
<b>Total undiscounted financial liabilities</b>	<b>14,545,884</b>	<b>34,577,169</b>	<b>7,146,150</b>	<b>3,870,638</b>	<b>8,430,271</b>	<b>68,570,112</b>
<b>As at December 31, 2016</b>						
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
<b>Total undiscounted financial liabilities</b>	<b>11,994,480</b>	<b>25,459,321</b>	<b>6,386,360</b>	<b>3,256,679</b>	<b>6,937,361</b>	<b>54,034,201</b>

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

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

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>June 30, 2017</b>						
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
<b>Total</b>	<b>10,780,495</b>	<b>1,087,254</b>	<b>2,475,498</b>	<b>1,751,369</b>	<b>113,831</b>	<b>16,208,447</b>
<b>December 31, 2016</b>						
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
<b>Total</b>	<b>7,742,876</b>	<b>1,087,254</b>	<b>2,475,498</b>	<b>1,751,369</b>	<b>113,831</b>	<b>13,170,828</b>

(\*) 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.

June 30, 2017				December 31, 2016		
Precious metal	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.

June 30, 2017				December 31, 2016		
Currency	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.

## 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)

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
<b>Total assets</b>	<b>7,171,835</b>	<b>17,304,631</b>	<b>156,944</b>	<b>2,512,854</b>	<b>26,776,264</b>
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
<b>Total liabilities and equity</b>	<b>3,679,973</b>	<b>19,587,342</b>	<b>919,943</b>	<b>2,845,701</b>	<b>27,032,959</b>
<b>Net balance sheet position</b>	<b>3,491,862</b>	<b>(2,282,711)</b>	<b>(762,999)</b>	<b>(332,847)</b>	<b>(113,305)</b>
<b>Net off-balance sheet position</b>	<b>(3,461,370)</b>	<b>2,381,573</b>	<b>761,644</b>	<b>327,204</b>	<b>9,051</b>
<b>Net position</b>	<b>30,492</b>	<b>98,862</b>	<b>(1,355)</b>	<b>(5,643)</b>	<b>122,356</b>

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
<b>Total assets</b>	<b>9,713,021</b>	<b>15,530,824</b>	<b>176,634</b>	<b>2,405,918</b>	<b>27,826,397</b>
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
<b>Total liabilities and equity</b>	<b>3,053,669</b>	<b>17,440,299</b>	<b>767,077</b>	<b>2,339,894</b>	<b>23,600,939</b>
<b>Net balance sheet position</b>	<b>6,659,352</b>	<b>(1,909,475)</b>	<b>(590,443)</b>	<b>66,024</b>	<b>4,225,458</b>
<b>Net off-balance sheet position</b>	<b>(6,447,687)</b>	<b>1,761,924</b>	<b>86,906</b>	<b>446,475</b>	<b>(4,152,382)</b>
<b>Net position</b>	<b>30,492</b>	<b>98,862</b>	<b>(1,355)</b>	<b>(5,643)</b>	<b>122,356</b>

#### 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.