

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

**Interim condensed consolidated  
financial statements as at June 30, 2014**

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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, 2014, 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 Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.*

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

Istanbul, September 16, 2014

# Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

## Interim consolidated statement of financial position at June 30, 2014 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2014	December 31, 2013
<b>Assets</b>			
Cash and balances with the Central Bank	4	906,835	858,686
Balances with other banks and financial institutions	4	3,464,391	2,715,572
Reserve deposits at the Central Bank		3,493,857	2,988,091
Financial assets – held for trading		64,936	115,936
<i>Derivative financial instruments</i>		58,472	108,739
<i>Share Certificates</i>		181	181
<i>Precious Metal Fund</i>		6,283	7,016
Financial assets – available-for-sale	5	1,967,059	1,323,516
Due from financing activities, net	6	17,706,603	15,929,143
Minimum finance lease payments receivable, net	7	564,175	400,766
Precious Metals	8	1,040,556	466,834
Construction projects, net		46,764	46,244
Joint venture		8,551	5,064
Investment properties, net		20,718	20,815
Property and equipment, net	9	363,849	321,179
Intangible assets, net		62,376	55,775
Deferred tax assets	13	28,648	32,307
Other assets	10	466,388	294,651
		<b>30,205,706</b>	<b>25,574,579</b>
Assets and a disposal group held for sale		35,513	27,946
<b>Total assets</b>		<b>30,241,219</b>	<b>25,602,525</b>
<b>Liabilities and equity</b>			
Due to other financial institutions and banks		3,824,214	4,040,526
Sukuk securities issued	11	1,966,864	905,841
Subordinated Loans	11	431,393	433,080
Money market balances	11	679,489	221,428
Current and profit / loss sharing investors' accounts	12	19,681,170	17,079,036
Derivative financial instruments		23,552	58,948
Employee benefit obligations		54,057	66,943
Income taxes payable	13	34,161	20,096
Other liabilities and provisions		540,349	358,121
<b>Total liabilities</b>		<b>27,235,249</b>	<b>23,184,019</b>
Share capital	14	2,287,005	1,700,000
Share premium		23,250	23,250
AFS investments reserve		42,215	2,025
Employee termination benefits reserve		(12,276)	(12,276)
Legal reserves and retained earnings		674,314	713,655
Currency translation differences		12,654	14,441
Other reserve	14	(22,227)	(22,589)
Non-controlling interest		1,035	-
<b>Total equity attributable to equity holders of the parent</b>		<b>3,005,970</b>	<b>2,418,506</b>
<b>Total liabilities and equity</b>		<b>30,241,219</b>	<b>25,602,525</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2014	June 30, 2013
<b>Continuing operations</b>			
<b>Income from financing activities:</b>			
Profit on originated loans from profit / loss sharing accounts		418,744	331,655
Profit on originated loans from current accounts and equity		369,785	254,346
Profit on deposits with other banks and financial institutions		6,872	6,150
Profit on finance leases		15,643	9,294
Profit on sukuk investments		57,108	23,210
<b>Total income from financing activities</b>		<b>868,152</b>	<b>624,655</b>
Profit shares distributed to participation accounts		(308,337)	(227,188)
Profit shares distributed to banks and financial institutions		(107,279)	(75,243)
<b>Net financing income</b>		<b>452,536</b>	<b>322,224</b>
Provision for impairment in due from financing activities and lease receivables, net		(61,259)	(39,156)
<b>Net financing income after reserve for impairment in due from financing activities and lease receivables</b>		<b>391,277</b>	<b>283,068</b>
Foreign exchange gain, net		48,677	74,465
<b>Net financing income after net foreign exchange gain</b>		<b>439,954</b>	<b>357,533</b>
Fee and commission income		175,318	159,889
Income from construction projects, net		-	(285)
Net trading income		32,523	3,135
Other income		43,268	27,909
<b>Total other operating income</b>		<b>251,109</b>	<b>190,648</b>
Fees and commission expense		(47,593)	(34,799)
Staff costs		(204,667)	(160,441)
Depreciation and amortization expense		(24,962)	(18,927)
Withholdings and other taxes		(13,795)	(13,044)
Rent expense		(35,029)	(27,428)
Other expenses		(102,880)	(70,680)
Share of a joint venture loss		(1,513)	-
<b>Total other operating expense</b>		<b>(430,439)</b>	<b>(325,319)</b>
<b>Profit before income tax</b>		<b>260,624</b>	<b>222,862</b>
Current tax charge	13	(55,837)	(29,381)
Deferred tax (charge) / credit	13	6,389	(6,187)
<b>Net income for the period</b>		<b>211,176</b>	<b>187,294</b>
<b>Other comprehensive income for the period</b>		<b>(1,787)</b>	<b>4,528</b>
Exchange differences on translation of the foreign subsidiary		(1,787)	4,528
<b>Available-for-sale investments reserve</b>		<b>40,190</b>	<b>(11,539)</b>
Net change in fair value		50,238	(14,424)
Deferred tax relating to component of other comprehensive income		(10,048)	2,885
<b>Total comprehensive income for the period</b>		<b>249,579</b>	<b>180,283</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (Currency - In thousands of Turkish Lira - TL)

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Currency translation differences	AFS investments reserves	Other reserves	Employee termination benefits reserve	Non- controlling interest	Total
<b>Balances at January 1, 2013</b>		1,100,000	23,250	46,403	564,949	3,116	13,208	(22,589)	-	-	1,728,337
Share capital increase from retained earnings cash injection	14	600,000 240,000 360,000	- - -	- - -	(240,000) (240,000) -	- - -	- - -	- - -	- - -	- - -	360,000 - 360,000
Transfer from retained earnings to legal reserves		-	-	14,397	(14,397)	-	-	-	-	-	-
Dividends paid	15	-	-	-	(18,872)	-	-	-	-	-	(18,872)
Total comprehensive income for the period		-	-	-	187,294	4,528	(11,539)	-	-	-	180,283
<b>Balances at June 30, 2013</b>		1,700,000	23,250	60,800	478,974	7,644	1,669	(22,589)	-	-	2,249,748
<b>Balances at January 1, 2014</b>		1,700,000	23,250	60,800	652,855	14,441	2,025	(22,589)	(12,276)	-	2,418,506
Share capital increase from retained earnings cash injection	14	590,000 230,000 360,000	- - -	- - -	(230,000) (230,000) -	- - -	- - -	- - -	- - -	- - -	360,000 - 360,000
Transfer from retained earnings to legal reserves		-	-	17,069	(17,069)	-	-	-	-	-	-
Dividends paid	15	-	-	-	(20,517)	-	-	-	-	-	(20,517)
Total comprehensive income for the period		-	-	-	211,176	(1,787)	40,190	-	-	-	249,579
Non-controlling interest		-	-	-	-	-	-	-	-	1,035	1,035
Other (*)		(2,995)	-	-	-	-	-	362	-	-	(2,633)
<b>Balances at June 30, 2014</b>		2,287,005	23,250	77,869	596,445	12,654	42,215	(22,227)	(12,276)	1,035	3,005,970

(\*)The Bank purchased its own shares during the recent capital increase, amounting to TL 2,995.

The policies and explanatory notes on pages 6 through 29 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, 2014 (Currency - In thousands of Turkish Lira - TL)

	Notes	January 1 – June 30, 2014	January 1 – June 30, 2013
<b>Cash flows from operating activities:</b>			
Net profit before income tax		260,624	222,862
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>			
Depreciation and amortization expense		24,962	18,927
Provision for employee termination benefits		5,683	12,031
Provision for personnel bonus accrual		12,900	9,452
Provision for unused vacation		5,510	5,993
Provision for impairment in due from financing activities and lease receivables		61,259	56,199
Income accrual of funds invested		(48,756)	2,069
Deferred income		(3,586)	7,193
Expense accrual of participation accounts		11,198	9,249
Expense accrual of funds borrowed		(17,076)	51,433
Net change in derivative financial instruments		14,871	(97,260)
Impact of exchange difference on cash and cash equivalents		(10,373)	(5,270)
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and assets held for sale		(2,567)	28
<b>Operating profit before changes in operating assets and liabilities</b>		<b>314,649</b>	<b>292,906</b>
<b>Net changes in :</b>			
Reserve deposits at the Central Bank of Turkey		(505,766)	(655,263)
Due from financing activities		(1,800,258)	(2,160,670)
Minimum financial lease payment receivables		(168,709)	(98,865)
Balances with other banks and financial institutions		626,157	79,371
Other assets and construction projects		(53,226)	(316,108)
Current accounts and profit/loss sharing investors' accounts		2,590,936	1,945,157
Other liabilities		57,365	(72,915)
Payment for employee termination benefits		(1,360)	(1,277)
Payment for employee bonuses		(36,700)	(28,000)
Precious metals		(573,722)	566,261
Income taxes paid		(41,772)	(28,737)
<b>Net cash provided from / (used in) operating activities</b>		<b>407,594</b>	<b>(478,140)</b>
<b>Cash flows from investing activities:</b>			
(Purchase) / Proceeds of available-for-sale, fair value through PL securities		(579,750)	(354,609)
Proceeds from sale of available-for-sale, fair value through PL securities		1,828	-
Purchase of property and equipment, intangible assets and investment properties		(75,508)	(48,100)
Proceeds from sale of property and equipment, intangible assets and investment properties		3,939	(1)
<b>Net cash used in investing activities</b>		<b>(649,491)</b>	<b>(402,710)</b>
<b>Cash flows from financing activities:</b>			
Increase in share capital		357,005	360,000
Dividends paid		(20,517)	(18,872)
Increase in due to financial institutions and banks		1,318,161	690,624
<b>Net cash provided by financing activities</b>		<b>1,654,649</b>	<b>1,031,752</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,412,752</b>	<b>150,902</b>
Net foreign exchange difference on cash and cash equivalents		10,373	5,270
Cash and cash equivalents at the beginning of the period	4	2,844,735	1,806,936
<b>Cash and cash equivalents at the end of the period</b>	<b>4</b>	<b>4,267,860</b>	<b>1,963,108</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (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 September 16, 2014.

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

At June 30, 2014, 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 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 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.

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

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

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

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



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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)**

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

In accordance with decision of the Bank's Board of Directors on 25 April 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 17 December 2013 by İstanbul Register of Commerce.

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

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

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

The interim financial statements have been prepared on a basis consistent with the accounting policies set out in the financial statements of the Group for the year ended December 31, 2013.

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, 2013.

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

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

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

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

##### **2.3 Adoption of new standards**

###### **2.3.1 New and Revised IFRSs affecting presentation and disclosure only**

None.

###### **2.3.2 New and Revised IFRSs affecting the reported financial performance and / or financial position**

None.

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)**

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

#### **2.3 Adoption of new standards (continued)**

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

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

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

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

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

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

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

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

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

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

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

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

##### **IFRIC 21 *Levies***

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

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

##### 2.3 Adoption of new standards (continued)

##### 2.3.4 New and Revised IFRSs in issue but not yet effective

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

IFRS 9	<i>Financial Instruments</i>
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
Annual Improvements to 2010-2012 Cycle	<i>IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38, IAS 24</i> <sup>1</sup>
Annual Improvements to 2011-2013 Cycle	<i>IFRS 1, IFRS 3, IFRS 13, IAS 40</i> <sup>1</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint operations</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>2</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>

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

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

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017.

#### IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

#### Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*

On November 2013, it is tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017.

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

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

#### Annual Improvements to 2010-2012 Cycle

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

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

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)**

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

#### **2.3 Adoption of new standards (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)**

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

##### **2.3 Adoption of new standards (continued)**

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

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

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

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

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

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

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

The five steps in the model are as follows:

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

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

#### **2.4 Functional and presentation currency**

The functional currency of the Bank and its Subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of Dubai Limited is US Dollar. The presentation currency of the Group is TL.

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (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, 2013	1.927	2.511
December 31, 2013	2.134	2.937
June 30, 2014	2.123	2.892

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 2.163 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, 2013.

##### 2.7 Reclassifications

The Group has classified TL 23,210 amount of "Profit on sukuk investments", presented under "Profit on originated loans from current accounts and equity", to "Profit on sukuk investments" account as of June 30, 2013 to be in line with the current period classification.

#### 3. Segment Information

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

**Retail Banking** – Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits under TL 1.2 million and loans that are less than TL 750.000 (full amount). and all foreign nationals' loans that are less than TL 500.000 (full amount).

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

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

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (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 years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in the first half of 2014 or 2013.

The chief operating decision maker of the Group is Board of Directors ("CODM"). CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a group basis and are not allocated to operating segments.

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

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

a) The difference resulted from the Insurance Fund Premium expenses included in this line in performance reports which is presented to the CODM, but in the accompanying financial statements it is included in Other Expenses.

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

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

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

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

### 3. Segment Information (continued)

For the period ended June 30, 2014	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	319,714	477,888	70,549	-	868,152
Intersegment (*)	161,658	(229,385)	11,351	56,377	(0)
Total operating income	481,372	248,503	81,900	56,377	868,152
Credit loss expense	(10,828)	(50,431)	-	-	(61,259)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	470,544	198,071	81,900	56,377	806,892
Results					
Net profit share income/(expense)	232,294	151,437	(25,908)	33,454	391,277
Net fees and commission income	121,218	123,675	14,381	7,989	267,263
Net trading income	182	3,557	28,784	-	32,523
Segment profit/(loss)	353,694	278,668	17,258	(388,995)	260,624
Income tax expense	-	-	-	(49,448)	(49,448)
Net profit for the year	353,694	278,668	17,258	(438,443)	211,176
Asset and liabilities as of June 30, 2014					
Assets					
Capital expenditures	-	-	-	188,636	188,636
Property and equipment	-	-	-	15,193	15,193
Intangible assets	-	-	-	(2,809)	(2,809)
Depreciation and amortization	-	-	-	-	-
Total assets	6,514,839	11,694,886	10,541,285	1,490,210	30,241,219
Total liabilities	14,677,336	5,186,358	7,015,367	356,188	27,235,249
For the period ended June 30, 2013	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	154,270	457,507	(42,196)	-	569,581
Intersegment (*)	83,466	(87,505)	4,039	-	-
Total operating income	237,736	370,002	(38,157)	-	569,581
Credit loss expense	(27,502)	(26,278)	(2,419)	-	(56,199)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	210,234	343,724	(40,576)	-	513,382
Results					
Net profit share income/(expense)	87,157	319,075	(66,965)	-	339,267
Net fees and commission income	33,210	91,477	403	-	125,090
Net trading income	149	4,609	(1,623)	-	3,135
Segment profit/(loss)	120,516	415,161	(68,185)	(244,630)	222,862
Income tax expense	-	-	-	(35,568)	(35,568)
Net profit for the year	120,516	415,161	(68,185)	(280,198)	187,294
Asset and liabilities as of June 30, 2013					
Assets					
Capital expenditures	-	-	-	36,551	36,551
Property and equipment	-	-	-	11,547	11,547
Intangible assets	-	-	-	(1,436)	(1,436)
Depreciation and amortization	-	-	-	-	-
Total assets	4,801,201	9,260,274	6,958,375	764,525	21,784,375
Total liabilities	10,252,149	4,520,034	4,087,176	675,268	19,534,627

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (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, 2014 and December 31, 2013:

	June 30, 2014	June 30, 2013
Cash on hand	491,553	853,684
Balances with the Central Bank of Turkey	415,282	50,830
<b>Cash and balances with the Central Bank of Turkey</b>	<b>906,835</b>	<b>904,514</b>
Balances with banks and other financial institutions	3,464,391	1,394,599
<b>Sub Total</b>	<b>4,371,226</b>	<b>2,299,113</b>
Less: Interbank precious metal deposits	91,509	336,005
Less: Bank balances with a maturity of more than three months	11,857	-
<b>Total</b>	<b>4,267,860</b>	<b>1,963,108</b>

As of June 30, 2014 and December 31, 2013, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits can be analyzed as follows:

	June 30, 2014				December 31, 2013			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	-	521,540	-	0.04%	98,250	137,875	0.18%	0.06%
<b>Total</b>		<b>521,540</b>				<b>236,125</b>		

#### 5. Financial assets

##### Available-for-sale

	June 30, 2014	December 31, 2013
Unlisted shares (*)	50,101	51,378
Financial Sukuk	1,916,958	1,272,138
<b>Total available-for-sale financial assets</b>	<b>1,967,059</b>	<b>1,323,516</b>

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

	Nature of business	%	June 30, 2014	%	December 31, 2013
			Amount		Amount
KFH Global Sukuk Fund	Financial institution	19	40,345	19	42,686
Neova Sigorta A.Ş.	Insurance company	6.99	4,816	6.99	3,752
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.75	4,211	1.75	4,211
Islamic International Rating Agency (IIRA)	Financial institution	8.36	714	8.36	714
Borsa Istanbul A.Ş.	Exchange entity	0.0035	15	0.0035	15
			<b>50,101</b>		<b>51,378</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (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, 2014					December 31, 2013		
	Amount		Effective profit rate			Amount		Effective profit rate
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	TL	Foreign currency	
Financial Sukuk	1,541,120	375,838	8.60%	2,67%	1,059,016	213,122	5.96%	2.29%
<b>Total</b>		<b>1,916,958</b>				<b>1,272,138</b>		

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

	June 30, 2014	December 31, 2013
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	8,772,915	6,469,506
Funds invested from current accounts and equity	8,352,343	8,610,475
Income accruals on due from financing activities (*)	502,980	801,908
	<b>17,628,238</b>	<b>15,881,889</b>
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	221,642	194,038
Funds invested from current accounts and equity	257,439	223,066
	<b>479,081</b>	<b>417,104</b>
<b>Total</b>	<b>18,107,319</b>	<b>16,298,993</b>
<b>Impairment allowance</b>		
Funds invested from profit / loss sharing accounts	(156,751)	(148,240)
Funds invested from current accounts and equity	(243,965)	(221,610)
	<b>(400,716)</b>	<b>(369,850)</b>
<b>Total due from financing activities</b>	<b>17,706,603</b>	<b>15,929,143</b>

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

As of June 30, 2014, the Bank took possession of collateral (lands and buildings) from customers amounting to TL 14,202 (December 31, 2013 - TL 14,299), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries****Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued)**  
(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, 2014	June 30, 2013
Balance at January 1,	369,850	300,069
Charge for the period		
Charges for the profit/loss	53,591	38,811
Charge for the profit/loss sharing accounts	42,134	34,058
Recoveries of amounts previously provided for	(49,846)	(43,526)
Reserves written off in current period	(15,013)	(29,861)
<b>Balance at the end of period</b>	<b>400,716</b>	<b>299,551</b>

The impairment allowance of TL 400,716 (June 30, 2013 – TL 299,551) 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, 2014	December 31, 2013
Gross investment in finance leases	650,137	463,196
Unearned finance income	(84,795)	(70,148)
Total impaired receivables	11,045	15,577
Impairment allowance	(12,212)	(7,859)
<b>Minimum lease payments receivable, net</b>	<b>564,175</b>	<b>400,766</b>

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

	June 30, 2014	June 30, 2013
Balance at January 1	7,859	2,095
Charge for the period	5,308	434
Charges for the profit/loss	5,300	345
Charge for the profit/loss sharing accounts	8	89
Recoveries of amounts previously provided for	(955)	(77)
Impairment allowance written off in current period	-	(166)
<b>Balance at the end of the period</b>	<b>12,212</b>	<b>2,286</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (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, 2014	December 31, 2013
Not later than 1 year	324,335	243,846
Later than 1 year and not later than 5 years	285,196	195,587
Later than 5 years	40,606	23,763
Non-performing receivables	11,045	15,577
<b>Minimum lease payments receivable, gross</b>	<b>661,182</b>	<b>478,773</b>
<b>Less : Unearned finance income</b>	<b>(84,795)</b>	<b>(70,148)</b>
Net investment in finance leases	576,387	408,625
Less : Allowance for impairment	(12,212)	(7,859)
<b>Minimum lease payments receivable, net</b>	<b>564,175</b>	<b>400,766</b>

As of June 30, 2014, TL 427,274 (December 31, 2013 - TL 262,388) of gross lease receivables is denominated in foreign currency (USD & EUR).

Net investment in finance leases as to their maturity:

	June 30, 2014	December 31, 2013
Not later than 1 year (*)	289,070	208,397
Later than 1 year and not later than 5 years	251,160	178,554
Later than 5 years	36,157	21,674
<b>Net investment in finance leases</b>	<b>576,387</b>	<b>408,625</b>

(\*) includes total impaired receivables amounting to TL 11,045 (December 31, 2013 – TL 15,577).

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, 2014		December 31, 2013
	Foreign currency (full gr.)	TL	Foreign currency (full gr.)	TL
Gold (gr.)	11,260,852	1,009,596	5,381,769	442,145
Silver (gr.)	21,581,017	30,960	18,451,000	24,689
		<b>1,040,556</b>		<b>466,834</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

#### 9. Property and equipment

##### Acquisitions and disposals

During the six months ended June 30, 2014, the Group acquired assets with a cost of TL 75,508 (June 30, 2013 – TL 48,100).

Assets with a net book value of TL 1,372 were disposed of by the Group during six months ended June 30, 2014 (June 30, 2013 - TL 27), resulting in a net profit on disposal TL 2,567 (June 30, 2013 – TL 28).

As of June 30, 2014 TL 17,338 (June 30, 2013 – TL 13,729) depreciation expenses of tangible assets have been charged.

#### 10. Other assets

	June 30, 2014	December 31, 2013
Clearing accounts	334,333	177,654
Receivables from precious metals transactions	16,444	-
Blockage for letter of guarantee	11,011	37,352
Prepaid expenses	45,177	38,328
Value added tax (VAT) receivable	735	1,022
Receivables from banking operations	8,586	24,521
Other	50,102	15,774
	466,388	294,651

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

##### Sukuk securities

Sukuk securities as of June 30, 2014 and December 31, 2013 are as follows;

	Amount in TL	
	June 30, 2014	December 31, 2013
Sukuk certificates issued USD	1,815,339	754,279
Sukuk certificates issued TL	151,525	151,562
Total	1,966,864	905,841

On October 31, 2011 the Bank issued 5-year rent certificate (sukuk) amounting USD 350 million with a profit share rate of 5.875%.

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

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

##### Subordinated loans

Subordinated loans as of June 30, 2014 and December 31, 2013 are as follows;

	Amount in TL	
	June 30, 2014	December 31, 2013
Subordinated loan provided by Kuwait Finance House	431,393	433,080
<b>Total</b>	<b>431,393</b>	<b>433,080</b>

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

##### Money market balances

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

As of 30 June 2014, the Group has repurchasing agreements amounting to TL 679,489 (31 December 2013 – TL 221,428). Group also has Sukuks that are subject to the repurchasing agreements amounting TL 697,626 (31 December 2013 – TL 218,522).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

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

	June 30, 2014	December 31, 2013
<b>Current accounts:</b>		
Turkish Lira	2,783,662	2,640,376
Foreign currency	2,541,784	2,363,813
	<b>5,325,446</b>	<b>5,004,189</b>
<b>Profit/loss sharing investors' accounts:</b>		
Turkish Lira	7,640,168	6,648,422
Foreign currency	6,608,368	5,322,356
	<b>14,248,536</b>	<b>11,970,778</b>
<b>Blocked accounts:</b>		
Turkish Lira	45,351	32,208
Foreign currency	6,613	26,957
	<b>51,964</b>	<b>59,165</b>
<b>Total current accounts and profit/loss investors' accounts</b>	<b>19,625,946</b>	<b>17,034,132</b>
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>55,224</b>	<b>44,904</b>
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>19,681,170</b>	<b>17,079,036</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, 2014. This rate was 20% for the nine month period ended June 30, 2013 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 2014 is 20%. (2013: 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, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

#### 13. Income taxes (continued)

##### Income Withholding Tax

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

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

The details of income tax expense are as follows;

	June 30, 2014	December 31, 2013
Current tax expense	55,837	73,152
Prepaid tax (-)	(21,676)	(53,056)
<b>Income taxes payable</b>	<b>34,161</b>	<b>20,096</b>

	June 30, 2014	June 30, 2013
Current tax expense	55,837	29,381
Deferred tax charge / (credit)	(6,389)	6,187
<b>Total income tax charge</b>	<b>49,448</b>	<b>35,568</b>

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group effective income tax rate for the periods June 30, 2014 and 2013 are as follows :

	June 30, 2014	June 30, 2013
Net profit before income tax	260,624	222,862
At Turkish statutory income tax rate of 20%	52,125	44,572
Effect of income not subject to tax	(2,362)	(9,789)
Effect of expenditure not allowable for income tax purposes	(315)	785
<b>Income tax charge</b>	<b>49,448</b>	<b>35,568</b>



# Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

## Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

### 13. Income taxes (continued)

Deferred income tax as of June 30, 2014 and December 31, 2013 are attributable to the following items :

	Deferred tax assets / (liabilities)	
	June 30, 2014	December 31, 2013
Provision for impairment in due from financing activities	8,875	8,793
Reserve for employee termination benefits	3,524	2,686
Deferred income	23,748	21,195
Bonus accrual of personnel	4,200	7,621
Impairment provision for subsidiaries, fixed assets and assets held for sale	12,798	9,408
Effect of precious metals valuation	4,129	2,525
Financial assets fair value differences	3,069	4,247
Effect of other temporary differences	109	147
<b>Deferred tax assets</b>	<b>60,452</b>	<b>56,622</b>
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(4,690)	(4,552)
Accounting for finance leases	(828)	(1,018)
Derivative accrual	(6,919)	(9,620)
Provision for non cash loans	(8,814)	(7,440)
Financial assets fair value differences	(10,553)	(1,685)
<b>Deferred tax liabilities</b>	<b>(31,804)</b>	<b>(24,315)</b>
<b>Deferred tax asset – net</b>	<b>28,648</b>	<b>32,307</b>

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

	June 30, 2014	June 30, 2013
Balance at the beginning of the year	32,307	25,520
Deferred income tax recognized in profit or loss	6,389	(6,187)
Deferred income tax relating to other comprehensive income	(10,048)	2,885
<b>Balance at the end of the period</b>	<b>28,648</b>	<b>22,218</b>

The policies and explanatory notes on pages 6 through 29 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, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

#### 14. Share capital and other reserves

##### Share capital

	June 30, 2014	December 31, 2013
Number of common shares, 1 TL, par value. Authorized, issued and outstanding.	2,287.01 million	1,700.00 million

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

	June 30, 2014		June 30, 2013	
	Number	TL	Number	TL
At January 1	1,700,000,000	1,700,000	1,100,000,000	1,100,000
Shares issued in				
- cash	360,000,000	360,000	360,000,000	360,000
- bonus shares from retained earnings	230,000,000	230,000	240,000,000	240,000
- purchased shares (*)	(2,995,000)	(2,995)	-	-
At June 30	2,287,005,000	2,287,005	1,700,000,000	1,700,000

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

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

As of June 30, 2014 and December 31, 2013, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2014		December 31, 2013	
	Amount	%	Amount	%
Kuwait Finance House	1,425,325	62.24	1,058,101	62.24
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	428,671	18.72	318,228	18.72
The Public Institution for Social Security, Kuwait	206,100	9.00	153,000	9.00
Islamic Development Bank	206,100	9.00	153,000	9.00
Other	20,809	1.04	17,671	1.04
Total share capital	2,287,005	100.00	1,700,000	100.00

##### 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, 2014 (continued) (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 20,517 (June 30, 2013 – TL 18,872) from the profit of the year 2013.

	June 30, 2014	June 30, 2013
<b>Ordinary shares</b>		
Amount	20,517	18,872
TL (full) per share	0.012	0.017

#### 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, 2014 and December 31, 2013 :

	June 30, 2014	December 31, 2013
Letters of guarantee issued by the Bank	6,972,285	7,127,080
Letters of credits	1,346,951	1,217,277
Commitments	2,333,870	2,411,581
Acceptance credits	73,217	57,587
Other guarantees	275,718	270,403
<b>Total</b>	<b>11,002,041</b>	<b>11,083,928</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, 2014	December 31, 2013
Within one year	2,566	-
After one year but not more than five years	159,648	130,964
More than five years	263,985	313,442
<b>Total</b>	<b>426,199</b>	<b>444,406</b>

#### Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 356,307 as of June 30, 2014 (December 31, 2013 - TL 225,837). As of June 30, 2014, the amount of the checks and bonds in collection are

TL 4,333,130 (December 31, 2013 – TL 3,680,160) and TL 773,356 (December 31, 2013 - TL 553,184) respectively.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

#### 17. Related party disclosures

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

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2014 and December 31, 2013 and also transactions which have been entered into with related parties during the six months period ended June 30, 2014 and 2013.

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

		June 30, 2014		December 31, 2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	321,768	2,410	83,992	631
	Gold (gr.)	241,502	21,652	180,402	14,821
KFH – Bahrain	BHD	23,518	132	39,431	223
	US\$	190,637	405	76,437	163
Auto Land A.S.	TL	-	27,118	-	29,698
Other related parties		-	95,997	-	51,193
		147,714		96,729	

(1) Shareholders

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

		June 30, 2014		December 31, 2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
Public Institute for Social Securities KW (1)	US\$	160,414,430	340,624	158,057,149	337,341
Kuwait Finance House (1)	US\$	751,132,147	1,594,954	706,219,960	1,507,285
Kuwait Finance House, Bahrain (*)	US\$	7,502,119	15,930	28,661,198	61,172
	EUR	1,000,726	2,894	1,654,810	4,859
Islamic Development Bank(1)	US\$	12,733,352	27,038	16,273,834	34,733
		1,981,440		1,945,390	

(1) Shareholders

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

# Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

## Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

### 17. Related party disclosures (continued)

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

		June 30, 2014		December 31, 2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	1,825,064	3,875	1,494,167	3,189
Kuwait Finance House (1)	TL	-	3,727	-	1,179
Islamic Development Bank (1)	US\$	5,180	11	5,154	11
Islamic Development Bank (1)	TL	-	-	-	619
Kuwait Finance House, Malaysia (*)	Gold (Gr.)	1,180,164	105,808	1,189,664	97,857
Kuwait Finance House, Bahrain (*)	US\$	1,413	3	1,406	3
Directorate of Vakıf Foundations, Turkey (1)	TL	-	19,354	-	15,814
Neova Sigorta AS (*)	TL	-	49,705	-	31,834
	US\$	420,081	892	44,043	94
	Silver (Gr.)	154,051	221	-	-
	GBP	1,108	4	-	-
		183,600		150,600	

(1) Shareholders

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

#### iv) Profit shares distributed :

		June 30, 2014		June 30, 2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	8,930,652	19,317	14,404,780	28,532
Islamic Development Bank (1)	US\$	53,167	115	335,999	648
Directorate of Vakıf Foundations, Turkey (1)	TL	-	794	-	130
Neova Sigorta (*)	TL	-	1,433	-	385
Kredi Garanti Fonu (*)	TL	-	-	-	96
Public Institute for Social Securities KW (1)	US\$	116,942	248	146,428	265
		21,907		21,407	

(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, 2014		December 31, 2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	5,892,402	12,512	334,734	714
Other related parties	TL	-	149	-	17
		12,661		731	

(1) Shareholders

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

### **Selected notes to interim condensed consolidated financial statements as at June 30, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)**

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

##### **Directors' remuneration**

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 10,042 during the six months period ended June 30, 2014 (For the six months ended June 30, 2013 - TL 7,798).

The key management personnel of the Bank are as follows;

Abdullah TIVNIKLİ	B.O.D. Vice Chairman
Adnan ERTEM	B.O.D. Member and Audit Committee Chairman
Nadir ALPARSLAN	B.O.D. Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Fawaz KH E AL SALEH	B.O.D. Member
Mohammad Shujaiddin AHMED	B.O.D. Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Ahmed S. AL KHARJI	B.O.D. Member

Key management includes 8 other officers together with the above B.O.D. members.

#### **18. Fair value of financial instruments**

##### **Fair values**

The fair value of the fixed rate financial assets carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of 30 June 2013, the fair value of financing and leasing receivables has been estimated as TL 18,320,044 (December 31, 2013 - TL 16,570,701) whereas their carrying amount is TL 18,270,778 (December 31, 2013 - TL 16,329,909).

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, 2014 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, 2014 (continued) (Currency - In thousands of Turkish Lira - TL)

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

Current Period	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets held for trading	6,283	58,472	-	64,755
Forward transactions	-	48,108	-	48,108
Swap transactions	-	10,364	-	10,364
Precious metal fund	6,283	-	-	6,283
Available-for-sale financial assets	1,916,958	-	-	1,916,958
Government debt securities	1,736,468	-	-	1,736,468
Other marketable securities	180,490	-	-	180,490
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	23,552	-	23,552
Forward transactions	-	18,700	-	18,700
Swap transactions	-	4,852	-	4,852

Prior Period	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets held for trading	7,016	108,739	-	115,755
Forward transactions	-	103,381	-	103,381
Swap transactions	-	5,358	-	5,358
Precious metal fund	7,016	-	-	7,016
Available-for-sale financial assets	1,272,138	-	-	1,272,138
Government debt securities	1,268,712	-	-	1,268,712
Other marketable securities	3,426	-	-	3,426
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	58,948	-	58,948
Forward transactions	-	32,480	-	32,480
Swap transactions	-	26,468	-	26,468

### 19. Subsequent events:

None.