

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

**Interim condensed consolidated financial
statements as at June 30, 2013**

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Independent Auditor's 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 statement of financial position of Kuveyt Türk Katılım Bankası Anonim Şirketi (the "Bank") and its subsidiaries (together the "Group") as of June 30, 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. 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 MUŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

Istanbul, August 23, 2013

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of financial position at June 30, 2013
(Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2013	December 31, 2012
Assets			
Cash and balances with the Central Bank of Turkey	4	904,514	478,136
Balances with other banks and financial institutions	4	1,394,599	1,585,434
Reserve deposits at the Central Bank of Turkey		2,508,912	1,853,649
Financial assets – held for trading		174,449	61,811
Derivative financial instruments		143,753	39,189
Share certificates		181	181
Gold fund		30,515	22,441
Financial assets – available-for-sale		907,451	549,316
Due from financing activities, net	5	13,688,589	11,583,902
Minimum finance lease payments receivable, net	6	278,918	182,338
Precious metals		1,089,537	1,655,798
Construction projects, net		43,525	41,226
Investment properties, net		15,488	31,315
Property and equipment, net	7	232,902	209,388
Intangible assets, net		50,511	43,729
Deferred tax assets	10	22,218	25,520
Other assets	8	440,573	265,536
		21,752,186	18,567,098
Assets held for sale		32,189	28,951
Total assets		21,784,375	18,596,049
Liabilities and equity			
Due to other financial institutions and banks		2,773,562	2,347,811
Sukuk securities issued		877,227	811,540
Subordinated loans		390,997	361,661
Money market balances		221,283	-
Current and profit / loss sharing investors' accounts	9	14,821,596	12,867,190
Minimum finance lease payables, net		456	99
Derivative financial instruments		44,950	7,393
Other liabilities		313,645	416,522
Provisions		67,913	39,802
Income taxes payable	10	22,998	15,694
Total liabilities		19,534,627	16,867,712
Share capital	11	1,700,000	1,100,000
Share premium		23,250	23,250
Available for sale investments reserve, net of tax		1,669	13,208
Legal reserves and retained earnings		539,774	611,352
Currency translation differences		7,644	3,116
Other reserve	11	(22,589)	(22,589)
Total equity attributable to equity holders of the parent		2,249,748	1,728,337
Total liabilities and equity		21,784,375	18,596,049

The policies and explanatory notes are an integral part of these interim consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of profit or loss and other comprehensive income for the six months ended June 30, 2013 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2013	June 30, 2012
Continuing operations			
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		331,655	308,079
Profit on originated loans from current accounts and equity		277,556	253,364
Profit on deposits with other banks and financial institutions		6,150	4,497
Profit on finance leases		9,294	4,919
Total income from financing activities		624,655	570,859
Profit shares distributed to participation accounts		(210,193)	(208,789)
Profit shares distributed to banks and financial institutions		(75,195)	(60,323)
Net financing income		339,267	301,747
Provision for impairment in due from financing activities and lease receivables, net		(56,199)	(46,631)
Net financing income after reserve for impairment in due from financing activities and lease receivables		283,068	255,116
Foreign exchange gain, net		74,465	44,882
Net financing income after net foreign exchange gain		357,533	299,998
Fee and commission income		159,889	128,356
Income from construction projects, net		(285)	(391)
Net trading income		3,135	7,908
Other income		27,909	8,231
Total other operating income		190,648	144,104
Fees and commission expense		(34,799)	(27,410)
Staff costs		(160,441)	(119,484)
Depreciation and amortization expense		(18,927)	(14,583)
Withholdings and other taxes		(13,044)	(9,392)
Rent expense		(27,428)	(20,221)
Other expenses		(70,680)	(66,305)
Total other operating expenses		(325,319)	(257,395)
Profit before income tax		222,862	186,707
Current tax charge	10	(29,381)	(17,908)
Deferred tax (charge) / credit	10	(6,187)	(18,522)
Net income for the period		187,294	150,277
Other comprehensive income for the period		4,528	(1,162)
Exchange differences on translation of the foreign subsidiary		4,528	(1,162)
Available-for-sale investments reserve		(11,539)	-
Net change in fair value		(14,424)	-
Deferred tax relating to component of other comprehensive income		2,885	-
Total comprehensive income for the period		180,283	149,115
Earnings per share (basic and diluted) for net income attributable to the ordinary equity holders of the Group during the period (in full TL per share)	13	0.167	0.134

The policies and explanatory notes are an integral part of these interim 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, 2013
(Currency - In thousands of Turkish Lira - TL)**

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Currency translation differences	Available for sale investments	Other reserves	Total
Balances at January 1, 2012		950,000	23,250	34,921	481,458	4,676	-	(22,589)	1,471,716
Share capital increase from reserves		150,000	-	-	(150,000)	-	-	-	-
Transfer from retained earnings to legal reserves		-	-	27,737	(27,737)	-	-	-	-
Dividends paid	12	-	-	-	(17,257)	-	-	-	(17,257)
Total comprehensive income for the period		-	-	-	150,277	(1,162)	-	-	149,115
Balances at June 30, 2012		1,100,000	23,250	62,658	436,741	3,514	-	(22,589)	1,603,574
Balances at January 1, 2013		1,100,000	23,250	46,403	564,949	3,116	13,208	(22,589)	1,728,337
Share capital increase		600,000	-	-	(240,000)	-	-	-	360,000
Transfer from retained earnings to legal reserves		-	-	14,397	(14,397)	-	-	-	-
Dividends paid	12	-	-	-	(18,872)	-	-	-	(18,872)
Total comprehensive income for the period		-	-	-	187,294	4,528	(11,539)	-	180,283
Balances at June 30, 2013		1,700,000	23,250	60,800	478,974	7,644	1,669	(22,589)	2,249,748

The policies and explanatory notes are an integral part of these interim 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, 2013 (Currency - In thousands of Turkish Lira - TL)

	Notes	1 January- June 30, 2013	1 January- June 30, 2012
Cash flows from operating activities:			
Net profit before income tax		222,862	186,707
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization		18,927	14,583
Provision for employee termination benefits		12,031	9,890
Provision for personnel bonus accrual		9,452	-
Provision for unused vacation		5,993	436
Provision for impairment in due from financing activities and lease receivables		56,199	9,970
Income accrual of funds invested		2,069	(13,444)
Deferred income		7,193	(6,615)
Expense accrual of participation accounts		9,249	(3,237)
Expense accrual of funds borrowed		51,433	(65,185)
Net change in derivative financial instruments		(97,260)	8,847
Impact of exchange difference on cash and cash equivalents		(5,270)	(16,500)
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and assets held for sale		28	(3,869)
Operating profit before changes in operating assets and liabilities		292,906	121,583
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(655,263)	(246,995)
Due from financing activities		(2,160,670)	(810,654)
Minimum financial lease payment receivables		(98,865)	5,016
Other assets and construction projects		(316,108)	73,946
Current accounts and profit/loss sharing investors' accounts		1,945,157	986,558
Other liabilities		(37,178)	(436)
Payment for employee termination benefits		(1,277)	(801)
Payment for employee bonuses		-	(27,352)
Precious metals		566,261	612,692
Income taxes paid		(28,737)	(3,683)
Net cash (used in)/provided by operating activities		(493,774)	709,874
Cash flows from investing activities:			
(Purchases) / proceeds of available-for-sale, held-to-maturity securities		(354,609)	(531)
Purchases of property and equipment, intangible assets and investment properties		(48,100)	(35,116)
Proceeds from sale of property and equipment, intangible assets and investment properties		(1)	1,475
Proceeds from sale of asset and liabilities held for sale		(3,238)	-
Net cash used in investing activities		(405,948)	(34,172)
Cash flows from financing activities:			
Increase in share capital		360,000	-
Dividends paid		-	(17,257)
Increase in due to financial institutions and banks		690,624	662,115
Net cash provided by financing activities		1,050,624	644,858
Net increase / (decrease) in cash and cash equivalents		150,902	1,320,560
Net foreign exchange difference on cash and cash equivalents		5,270	16,500
Cash and cash equivalents at the beginning of the period	4	1,806,936	1,375,288
Cash and cash equivalents at the end of the period	4	1,963,108	2,712,348

The policies and explanatory notes are an integral part of these interim consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2013 (Currency - In thousands of Turkish Lira - TL)

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the "Bank") was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained approval from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The interim condensed consolidated financial statements were authorized for issue by the management on August 23, 2013.

Nature of activities of the Bank and its subsidiaries

At June 30, 2013, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 100% shareholding was incorporated in June 1996 in Turkey. The Bank had signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 to transfer 51% of the shares of Körfez in exchange for USD 10,613,000 and TL 2,450. Subsequently, on June 6, 2010, the Group bought back 51% of the outstanding ordinary shares of Körfez, and obtained full control of Körfez by having 100 percent shareholding. 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 and expert valuations carried out on behalf of third parties.

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 subsidiary, Kuveyt Türk Sukuk Ltd. has been established on August 24, 2010 in United Kingdom as a special purpose vehicle (SPV) in order to issue Sukuk Securities amounting to USD 100,000,000.

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

The Bank's other subsidiary, KT Sukuk Varlık Kiralama A.Ş., in which the Bank has a 100% shareholding, has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities amounting to USD 350,000,000.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2013 (Currency - In thousands of Turkish Lira - TL)

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, 2012.

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, 2012.

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, 2013 (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

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS 1 Clarification of the Requirements for Comparative Information
- IFRS10 Consolidated Financial Statements
- IFRS11 Joint Arrangements
- IFRS12 Disclosure of Interest in Other Entities
- IFRS13 Fair Value Measurements
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
- IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities - Transition Guide
- IAS19 Employee Benefits (as revised in 2011)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. The Bank has considered the effects of the retrospective application and concluded that the effect is not material and therefore has not restated the prior period financial statements.

- IAS27 Separate Financial Statements (as revised in 2011)
- IAS28 Investments in Associates and Joint Ventures (as revised in 2011)
- Amendments to IFRS, - Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1

2.3.4. New and revised IFRSs in issue but not yet effective

- IFRS9 Financial Instruments
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures
- Amendments to IAS32 Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies

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.

Selected notes to interim condensed consolidated financial statements as at June 30, 2013
(Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

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).

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

Dates	USD / TL	EUR / TL
June 30, 2012	1.815	2.259
December 31, 2012	1.783	2.352
June 30, 2013	1.927	2.511

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 1.809 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, 2012.

2. Basis of presentation and accounting policies (continued)

2.7 Reclassifications

None.

3. Segment Information

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

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

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

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

The 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.

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2013
(Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

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
Provision for impairment in due from financing activities and lease receivables, net	(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					
Property and equipment	-	-	-	232,902	232,902
Other intangible assets	-	-	-	50,511	50,511
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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2013
(Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

For the period ended June 30, 2012	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	141,235	357,155	(35,067)	-	463,323
Intersegment (*)	120,794	(82,676)	(38,118)	-	-
Total operating income	262,029	274,479	(73,185)	-	463,323
Provision for impairment in due from financing activities and lease receivables, net	(22,343)	(23,491)	(797)	-	(46,631)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	239,686	250,988	(73,982)	-	416,692
Results					
Net profit share income/(expense)	73,657	282,081	(53,992)	-	301,747
Net fees and commission income	51,288	49,829	(171)	-	100,946
Net trading income	787	4,463	2,658	-	7,908
Segment profit/(loss)	125,733	336,373	(51,505)	(223,894)	186,707
Income tax expense	-	-	-	(36,430)	(49,731)
Net profit for the year	125,733	336,373	(51,505)	(260,324)	150,277
Asset and liabilities as of June 30, 2012					
Assets					
Capital expenditures					
Property and equipment	-	-	-	157,360	157,360
Other intangible assets	-	-	-	34,663	34,663
Total assets	3,783,740	7,060,366	5,029,292	350,755	16,224,153
Total liabilities	7,675,188	3,245,756	3,410,230	289,405	14,620,579

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

4. Cash and balances with banks

Cash and cash equivalents comprise the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Cash on hand	853,684	304,914
Balances with the Central Bank of Turkey	50,830	173,222
Cash and balances with the Central Bank of Turkey	904,514	478,136
Balances with banks and other financial institutions	1,394,599	1,585,434
Cash and cash equivalents as per the cash flow statement	2,299,113	2,063,570
Less: Interbank gold deposits	336,005	256,634
Total	1,963,108	1,806,936

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2013
(Currency - In thousands of Turkish Lira - TL)

4. Cash and balances with banks (continued)

As of June 30, 2013 and December 31, 2012, “balances with other banks and financial institutions” are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	June 30, 2013					December 31, 2012		
	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	30,000	116,596	6.35%	0.72%	250,734	382,290	5.32%	0.72%
Total		116,596				382,290		

5. Due from financing activities, net

	June 30, 2013	December 31, 2012
Performing		
Funds invested from profit/loss sharing accounts	5,744,823	6,347,839
Funds invested from current accounts and equity	7,411,074	5,003,446
Income accruals on due from financing activities (*)	451,544	197,919
	13,607,441	11,549,204
Funds in arrears		
Funds invested from profit / loss sharing accounts	173,458	137,447
Funds invested from current accounts and equity	207,241	197,320
	380,699	334,767
Total	13,988,140	11,883,971
Impairment allowance		
Funds invested from profit / loss sharing accounts	(120,624)	(111,592)
Funds invested from current accounts and equity	(178,927)	(188,477)
	(299,551)	(300,069)
Total due from financing activities	13,688,589	11,583,902

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

As of June 30, 2013, the Bank took possession of collateral (lands and buildings) from customers amounting to TL 15,488 (December 31, 2012 - TL 31,315), 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.

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5. Due from financing activities, net (continued)

Movement in impairment allowance for funds disbursed is as follows :

	June 30, 2013	June 30, 2012
Balance at January 1,	300,069	230,887
Charge for the period		
Charges for the profit/loss	38,811	42,667
Charge for the profit/loss sharing accounts	34,058	22,500
Recoveries of amounts previously provided for	(43,526)	(45,809)
Reserves written off in current period	(29,861)	(8,369)
Balance at the end of period	299,551	241,876

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is TL 56,154 (June 30, 2012 – TL 34,367).

The impairment allowance of TL 299,551 (June 30, 2012 – TL 241,876) is made up of an individual and collective allowance.

6. Minimum financial lease payment receivable, net

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

	June 30, 2013	December 31, 2012
Gross investment in finance leases	329,588	225,658
Unearned finance income	(51,922)	(43,822)
Total impaired receivables	3,537	2,597
Impairment allowance	(2,285)	(2,095)
Minimum lease payments receivable, net	278,918	182,338

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

	June 30, 2013	June 30, 2012
Balance at January 1	2,095	4,995
Charge for the period	434	758
Charges for the profit/loss	345	750
Charge for the profit/loss sharing accounts	89	8
Recoveries of amounts previously provided for	(77)	(414)
Impairment allowance written off in current period	(166)	(1,888)
Balance at the end of the period	2,285	3,451

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

Gross investment in finance leases as to their maturity:

	June 30, 2013	December 31, 2012
Not later than 1 year (*)	176,338	92,278
Later than 1 year and not later than 5 years	140,886	123,213
Later than 5 years	15,901	12,764
Minimum lease payments receivable, gross	333,125	228,255
Less : Unearned finance income	(51,922)	(43,822)
Net investment in finance leases	281,203	184,433
Less : Allowance for impairment	(2,285)	(2,095)
Minimum lease payments receivable, net	278,918	182,338

(*) includes total impaired receivables amounting to TL 3,537 (December 31, 2012– TL 2,597).

As of June 30, 2013, TL 231,651 (December 31, 2012 - TL 179,832) of gross lease receivables is denominated in foreign currency (USD & EUR).

Net investment in finance leases as to their maturity:

	June 30, 2013	December 31, 2012
Not later than 1 year (*)	148,563	74,930
Later than 1 year and not later than 5 years	118,075	100,109
Later than 5 years	14,565	9,394
Net investment in finance leases	281,203	184,433

(*) Includes total impaired receivables amounting to TL 3,537 (December 31, 2012 – TL 2,597).

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

7. Property and equipment

Acquisitions and disposals

During the six months ended June 30, 2013, the Group acquired assets with a cost of TL 48,100 (June 30, 2012 – TL 17,955).

Assets with a net book value of TL 27 were disposed of by the Group during six months ended June 30, 2013 (June 30, 2012 - TL 310), resulting in a net loss on disposal TL 28 (June 30, 2012 – TL 219).

As of June 30, 2013 TL 18,927 (June 30, 2012 – TL 14,583) depreciation and amortization expenses of tangible and intangible assets have been charged.

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8. Other assets

Other assets comprise the following:

	June 30, 2013	December 31, 2012
Clearing accounts	55,350	207,103
Receivables from precious metals transactions	285,043	816
Blockage for letter of guarantee	24,377	4,371
Prepaid expenses	42,647	27,160
Value added tax (VAT) receivable	1,766	-
Receivables from banking operations	8,693	8,104
Other	22,697	17,982
	440,573	265,536

9. Current and profit loss sharing investors' accounts

	June 30, 2013	December 31, 2012
Current accounts:		
Turkish Lira	1,974,875	1,588,185
Foreign currency	1,866,568	1,756,595
	3,841,443	3,344,780
Profit/loss sharing investors' accounts:		
Turkish Lira	6,367,339	5,182,740
Foreign currency	4,528,199	4,218,782
	10,895,538	9,401,522
Blocked accounts:		
Turkish Lira	27,343	39,516
Foreign currency	11,894	45,008
	39,237	84,524
Total current accounts and profit/loss investors' accounts	14,776,218	12,830,826
Expense accrual on current accounts and profit/loss sharing investors' accounts	45,378	36,364
Total current accounts and profit/loss sharing investors' accounts	14,821,596	12,867,190

Selected notes to interim condensed consolidated financial statements as at June 30, 2013
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10. Income taxes

Corporate Tax

The Bank and its subsidiaries which are incorporated in Turkey, 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 consolidated 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.

The effective tax rate in 2012 is 20% (2011: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2013 is 20%. (2012: 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.

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. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Minister's Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Investment Incentives

According to the regulation, published in the Official Gazette on 1 August 2010 based on Law No. 6009, the investment allowance amounts can be used without a year limitation. Investment allowance amount, which will be used in the determination of the tax assessment, will not exceed 25% profit of the concerned period. In addition to this, 20% corporate tax rate will be applied on the income after the deduction of the allowance.

The details of income tax expense are as follows;

	June 30, 2013	December 31, 2012
Current tax expense	29,381	50,379
Prepaid taxes (-)	(6,383)	(34,685)
Income taxes payable	22,998	15,694
	June 30, 2013	June 30, 2012
Current tax expense	29,381	17,908
Deferred tax charge / (credit)	6,187	18,522
Total income tax charge	35,568	36,430

Selected notes to interim condensed consolidated financial statements as at June 30, 2013
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10. Income taxes (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the periods June 30, 2013 and 2012 are as follows :

	June 30, 2013	June 30, 2012
Net profit before income tax	222,862	186,707
At Turkish statutory income tax rate of 20%	44,572	37,341
Effect of income not subject to tax	(9,789)	(1,360)
Effect of expenditure not allowable for income tax purposes	785	449
Income tax charge	35,568	36,430

Deferred income tax as of June 30, 2013 and December 31, 2012 are attributable to the following items :

	Deferred tax assets / (liabilities)	
	June 30, 2013	December 31, 2012
Provision for impairment in due from financing activities	10,695	10,534
Reserve for employee termination benefits	2,517	2,360
Deferred income	19,547	18,442
Personnel bonus accrual	3,136	5,600
Impairment provision for subsidiaries, property and equipment and assets held for sale	7,338	3,162
Effect of precious metals valuation	8,777	5,243
Deferred tax accounted for under shareholders' equity	1,010	-
Effect of other temporary differences	518	251
Deferred tax assets	53,538	45,592
Pro-rata depreciation of property and equipment, intangible assets and other non-monetary items	(3,105)	(3,206)
Accounting for finance leases	(12)	(32)
Derivatives fair value accruals	(19,147)	(11,452)
Effect of precious metals valuation	-	-
Provision for non cash loans and check commitments	(6,420)	(5,382)
Deferred tax accounted for under shareholders' equity	(1,171)	-
Other	(1,465)	-
Deferred tax liabilities	(31,320)	(20,072)
Deferred tax asset – net	22,218	25,520

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

	June 30, 2013	June 30, 2012
Balance at the beginning of the period	25,520	38,439
Deferred income tax recognized in profit or loss	(6,187)	(18,522)
Deferred income tax relating to other comprehensive income	2,885	-
Balance at the end of the period	22,218	19,917

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11. Share capital and other reserves

Share capital

	June 30, 2013	December 31, 2012
Number of common shares, 1 TL, par value. Authorized, issued and outstanding.	1,700.00 million	1,100.00 million

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

	June 30, 2013		June 30, 2012	
	Number	TL	Number	TL
At January 1	1,100,000,000	1,100,000	950,000,000	950,000
Shares issued in				
- cash (*)	360,000,000	360,000	150,000,000	150,000
- bonus shares from retained earnings	240,000,000	240,000		
At June 30	1,700,000,000	1,700,000	1,100,000,000	1,100,000

According to Ordinary General Assembly dated 28 March 2013, cash capital increase will be made two parts. TL 360,000, the first part, was paid as at 24 June 2013. TL 360,000, the second part, will be paid to the shareholders in following 15 months after relating capital increase at 10 June 2013.

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

As of June 30, 2013 and December 31, 2012, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2013		December 31, 2012	
	Amount	%	Amount	%
Kuwait Finance House	1,058,102	62.2	684,654	62.2
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	318,227	18.7	205,912	18.7
The Public Institution for Social Security, Kuwait	153,000	9	99,000	9
Islamic Development Bank	153,000	9	99,000	9
Other	17,671	1.1	11,434	1.1
Total share capital	1,700,000	100%	1,100,000	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.

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12. Dividends paid and proposed

Dividends paid and proposed

During the current period, the Bank has paid dividend of TL 18,872 (June 30, 2012 – TL 17,257) from the profit of the year 2012.

	June 30, 2013	June 30, 2012
Ordinary shares		
Amount	18,872	17,257
TL (full) per share	0.011	0.016

13. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

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

	January 1 – June 30, 2013	January 1 – June 30, 2012
Net profit attributable to continuing operations of the Bank for basic earnings per share	187,294	150,277
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	187,294	150,277
Weighted average number of ordinary shares for basic earnings per share (thousands)	1,119,890	1,119,890
Basic earnings per share (expressed in full TL per share)	0.167	0.134

There are no dilutive potential ordinary share and accordingly there are no diluted earnings per share for any class of shares.

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14. 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, 2013 and December 31, 2012 :

	June 30, 2013	December 31, 2012
Letters of guarantee issued by the Bank	6,766,959	5,208,667
Letters of credits	1,281,662	991,612
Commitments	1,944,565	1,433,114
Acceptance credits	73,833	65,386
Other guarantees	257,722	34,786
Total	10,324,741	7,733,565

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, 2013	December 31, 2012
Within one year	2,859	-
After one year but not more than five years	74,414	48,926
More than five years	115,133	137,665
Total	192,406	185,961

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 39,692 as of June 30, 2013 (December 31, 2012 - TL 37,442). As of June 30, 2013, the amount of the checks and bonds in collection are TL 3,600,872 (December 31, 2012 - TL 2,677,543) and TL 458,276 (December 31, 2012 - TL 286,374), respectively.

15. 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.

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15. Related party disclosures (continued)

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2013 and December 31, 2012 and also transactions which have been entered into with related parties during the six months period ended June 30, 2013 and 2012.

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

		June 30, 2013		December 31, 2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	142,205	955	19,101	120
	Gold (gr.)	255,150	19,113	-	-
KFH – Bahrain	US\$	121,271	234	155,635	278
	BHD	47,189	223	43,880	207
Auto Land A.S.	TL	-	32,630	-	32,522
Other related parties		-	44,546	-	52,743
			97,701		85,870

(1) shareholders

ii) Due to banks & other financial institutions:

		June 30, 2013		December 31, 2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
The Public Institution for Social Security, Kuwait (1)	US\$	159,223,287	306,855	156,831,033	279,567
Kuwait Finance House (1)	US\$	701,115,584	1,351,191	706,311,567	1,259,071
Kuwait Finance House, Malaysia (*)	US\$	40,715,456	78,467	50,274,879	89,620
Kuwait Finance House, Bahrain (*)	US\$	20,003,758	38,552	-	-
	EUR	7,664,174	19,244	-	-
Islamic Development Bank(1)	US\$	12,060,620	23,243	10,774,711	19,207
			1,817,552		1,647,465

(1) shareholders

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

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

		June 30, 2013		December 31, 2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	1,295,214	2,496	1,303,095	2,323
Kuwait Finance House (1)	TL	-	263	-	373
Islamic Development Bank (1)	US\$	5,146	10	5,146	9
Islamic Development Bank (1)	TL	-	619	-	236
Kuwait Finance House, Malaysia (*)	Gold (Gr.)	1,210,017	90,641	940,275	89,963
Vakıflar Genel Müdürlüğü Mazbut Vakıfları (1)	TL	-	13,456	-	10,355
Neova Sigorta AS (*)	TL	-	31,125	-	11,646
	US\$	673	1	-	21
	EUR	3,354	8	-	-
			138,619		114,926

(1) Shareholders

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

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15. Related party disclosures (continued)

iv) Profit shares distributed :

		June 30, 2013		June 30, 2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	14,404,780	28,532	6,524,153	11,843
Islamic Development Bank (1)	US\$	335,999	648	1,280,856	2,325
Vakıflar Genel Müdürlüğü Mazbut Vakıfları (1)	TL	-	130	-	-
Neova Sigorta (*)	TL	-	385	-	65
Kredi Garanti Fonu (*)	TL	-	96	-	82
The Public Institution for Social Security, Kuwait (1)	US\$	1,803,460	3,262	-	5
		33,053		14,320	

(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, 2013		December 31, 2012	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (*)	US\$	7,015,282	13,520	7,058,040	12,582
Other related parties	TL	-	5,047	-	1,148
		5,758		13,730	

(*) shareholders

Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 7,798 during the six months period ended June 30, 2013 (For the six months ended June 30, 2012 - TL 6,146). During the six months ended June 30, 2013 the key management personnel did not receive any termination benefits (During the six months ended June 30, 2012 - nil).

The key management personnel of the Bank are as follows;

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

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

16. Subsequent events

None.