

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

**Interim Condensed Consolidated Financial
Statements as at June 30, 2016**

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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, 2016, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

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

Istanbul, October 19, 2016

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of financial position at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2016	December 31, 2015
Assets			
Cash and balances with the Central Bank	4	1,930,503	1,970,359
Balances with other banks and financial institutions	4	2,950,432	4,753,336
Reserve deposits at the Central Bank		5,278,883	5,141,295
Financial assets – held for trading		169,707	89,820
<i>Derivative financial instruments</i>		89,582	44,606
<i>Share Certificates</i>		390	390
<i>Precious Metal Fund</i>		-	207
<i>Sukuk held for trading</i>		79,735	44,617
Financial assets – available-for-sale	5	3,165,468	2,354,196
Due from financing activities, net	6	26,438,686	24,669,042
Minimum finance lease payments receivable, net	7	1,373,225	1,183,424
Precious metals	8	1,179,146	471,703
Construction projects, net		40,889	52,904
Joint venture		8,535	8,378
Investment properties, net		30,456	33,807
Property and equipment, net	9	426,338	430,428
Intangible assets, net		133,319	119,452
Deferred tax assets	13	77,124	98,469
Other assets	10	693,526	456,682
		43,896,237	41,833,295
Assets and a disposal group held for sale		28,145	27,332
Total assets		43,924,382	41,860,627
Liabilities and equity			
Due to other financial institutions and banks		3,509,880	4,261,643
Sukuk securities issued	11	3,574,269	3,636,119
Subordinated loans	11	1,629,171	589,734
Money market balances		1,094,805	711,542
Current and profit / loss sharing investors' accounts	12	28,885,368	28,145,291
Derivative financial instruments		126,989	170,173
Employee benefit obligations		95,984	106,905
Income taxes payable	13	26,612	36,472
Other liabilities and provisions	17	980,783	502,024
Total liabilities		39,923,861	38,159,903
Share capital	14	2,787,322	2,527,322
Share premium		22,933	22,933
AFS investments reserve		26,297	5,394
Employee termination benefits reserve		(15,314)	(14,916)
Legal reserves and retained earnings		1,153,287	1,142,532
Currency translation differences		71,837	70,961
Hedging fund		(32,636)	(32,660)
Other reserve	14	(22,162)	(22,162)
Non-controlling interest		8,957	1,320
Total equity attributable to equity holders of the parent		4,000,521	3,700,724
Total liabilities and equity		43,924,382	41,860,627

The policies and explanatory notes on pages 6 through 31 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, 2016 (Currency - In thousands of Turkish Lira - TL)

	Notes	June 30, 2016	June 30, 2015
Continuing operations			
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		599,827	455,972
Profit on originated loans from current accounts and equity		660,605	560,129
Profit on deposits with other banks and financial institutions		20,762	7,363
Profit on finance leases		48,787	31,640
Profit on sukuk investments		94,035	78,538
Total income from financing activities		1,424,016	1,133,642
Profit shares distributed to participation accounts		(427,315)	(331,137)
Profit shares distributed to banks and financial institutions		(240,121)	(182,673)
Net financing income		756,580	619,832
Provision for impairment in due from financing activities and lease receivables, net		(270,669)	(181,549)
Net financing income after reserve for impairment in due from financing activities and lease receivables		485,911	438,283
Foreign exchange gain, net		72,282	68,088
Net financing income after net foreign exchange gain		558,193	506,371
Fee and commission income		232,416	202,918
Income from construction projects, net		31,196	-
Net trading income		25,946	(6,864)
Other income		102,545	96,059
Total other operating income		392,103	292,113
Fees and commission expense		(67,835)	(74,173)
Staff costs		(314,838)	(264,510)
Depreciation and amortization expense		(37,029)	(31,127)
Withholdings and other taxes		(21,763)	(18,149)
Rent expense		(48,765)	(42,016)
Other expenses		(127,048)	(102,584)
Share of a joint venture loss		(263)	(1,213)
Total other operating expense		(617,541)	(533,772)
Profit before income tax		332,755	264,712
Current tax charge	13	(42,964)	(73,636)
Deferred tax (charge) / credit	13	(16,112)	18,669
Net income for the period		273,679	209,745
Other comprehensive income for the period		900	28,298
Exchange differences on translation of the foreign subsidiary		900	28,298
Available-for-sale investments reserve		20,903	2,266
Net change in fair value		26,129	2,833
Deferred tax relating to component of other comprehensive income		(5,226)	(567)
Total comprehensive income for the period		295,482	240,309

The policies and explanatory notes on pages 6 through 31 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, 2016 (Currency - In thousands of Turkish Lira - TL)

	Notes	Share capital	Share Premium	Legal reserves	Retained earnings	Currency translation differences	Hedging Funds	AFS investments reserves	Other reserves	Employee termination benefits reserve	Non-controlling interest	Total
Balances at January 1, 2015		2,287,005	23,250	77,869	843,443	22,410	-	21,069	(22,123)	(17,437)	1,217	3,236,703
Share capital increase	14	240,000	-	-	(240,000)	-	-	-	-	-	-	-
<i>from retained earnings</i>		240,000	-	-	(240,000)	-	-	-	-	-	-	-
<i>cash injection</i>		-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves		-	-	22,418	(22,418)	-	-	-	-	-	-	-
Dividends paid	15	-	-	-	(38,958)	-	-	-	-	-	-	(38,958)
Total comprehensive income for the period		-	-	-	209,745	28,259	-	2,266	-	-	-	240,270
Non-controlling interest		-	-	-	-	-	-	-	-	-	2	2
Other		-	-	-	-	-	-	-	-	299	-	299
Balances at June 30, 2015		2,527,005	23,250	100,287	751,812	50,669	-	23,335	(22,123)	(17,138)	1,219	3,438,316
Balances at January 1, 2016		2,527,322	22,933	100,287	1,042,245	70,961	(32,660)	5,394	(22,162)	(14,916)	1,320	3,700,724
Share capital increase	14	260,000	-	-	(260,000)	-	-	-	-	-	-	-
<i>from retained earnings</i>		260,000	-	-	(260,000)	-	-	-	-	-	-	-
<i>cash injection</i>		-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves		-	-	22,574	(22,574)	-	-	-	-	-	-	-
Hedging funds		-	-	-	-	-	24	-	-	-	-	24
Dividends paid	15	-	-	-	(3,399)	-	-	-	-	-	-	(3,399)
Total comprehensive income for the period		-	-	-	273,679	876	-	20,903	-	(398)	-	295,060
Non-controlling interest		-	-	-	475	-	-	-	-	-	-	475
Other		-	-	-	-	-	-	-	-	-	7,637	7,637
Balances at June 30, 2016		2,787,322	22,933	122,861	1,030,426	71,837	(32,636)	26,297	(22,162)	15,314	8,957	4,000,521

The policies and explanatory notes on pages 6 through 31 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, 2016 (Currency - In thousands of Turkish Lira - TL)

Notes	January 1 – June 30, 2016	January 1 – June 30, 2015
Cash flows from operating activities:		
Net profit before income tax	332,755	264,712
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	37,029	31,127
Provision for employee termination benefits	13,497	7,808
Provision for personnel bonus accrual	18,988	19,076
Provision for unused vacation	10,049	8,131
Provision for impairment in due from financing activities and lease receivables	270,669	181,549
Income accrual of funds invested	(98,929)	(40,310)
Deferred income accrual/reversal	(2,923)	8,606
Reversal / Expense accrual of participation accounts	(6,528)	1,413
Expense /Reversal accrual of funds borrowed	3,189	(11,576)
Net change in derivative financial instruments	(88,160)	67,254
Impact of exchange difference on cash and cash equivalents and financial instruments	(31,191)	56,765
Share of loss on associates accounted by using the equity method	263	1,213
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and assets held for sale	(5,426)	(125)
Operating profit before changes in operating assets and liabilities	453,282	595,643
Net changes in :		
Reserve deposits at the Central Bank of Turkey	(137,588)	(436,475)
Due from financing activities	(1,941,384)	(3,951,613)
Minimum financial lease payment receivables	(189,801)	(292,717)
Other assets and construction projects	(313,804)	(39,028)
Current accounts and profit/loss sharing investors' accounts	875,612	3,761,600
Other liabilities	621,060	37,361
Payment for employee termination benefits	(3,384)	(1,739)
Payment for employee bonuses	(49,677)	(48,600)
Precious metals	(707,443)	319,555
Income taxes paid	(52,702)	(55,554)
Net cash provided from / (used in) operating activities	1,445,829	111,567
Cash flows from investing activities:		
Purchase of available-for-sale, fair value through PL securities	(1,546,413)	(786,375)
Proceeds from sale of available-for-sale, fair value through PL securities	766,342	599,491
Purchase of property and equipment, intangible assets and investment properties	(107,447)	(109,396)
Proceeds from sale of property and equipment, intangible assets and investment properties	15,120	314
Net cash used in investing activities	(872,398)	(295,966)
Cash flows from financing activities:		
Increase in share capital	-	-
Dividends paid	(3,399)	(38,958)
Increase in due to financial institutions and banks	604,451	1,570,269
Net cash provided by financing activities	601,052	1,452,313
Net increase in cash and cash equivalents	(1,717,175)	1,044,780
Net foreign exchange difference on cash and cash equivalents	3,422	(28,506)
Cash and cash equivalents at the beginning of the period	4 6,565,043	4,346,500
Cash and cash equivalents at the end of the period	4 4,851,290	5,245,894

The policies and explanatory notes on pages 6 through 31 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, 2016 (Currency - In thousands of Turkish Lira - TL)

1. Corporate information

General

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

The interim condensed consolidated financial statements were authorized for issue by the management on October 19, 2016.

Nature of activities of the bank and its subsidiaries

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

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

The Bank’s other subsidiary, Körfez Tatil Beldesi A.Ş. (“Körfez Tatil Beldesi”), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 301 “time-sharing” houses in Edremit-Balıkesir.

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

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

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

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

KT Portföy Yönetim Anonim Şirketi (“Company”), is operating in Turkey. The Company is founded in 26 May 2015.

The main aim of the bank is to serve its customers in every aspect of the fund management business with a participation based portfolio management company.

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (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, 2015.

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, 2015.

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.

The Bank's subsidiary, Kuveyt Turkish Participation Bank Dubai Ltd. which is 100% owned by the Bank was established in November, 2009. Main field of its operations are providing interest free corporate banking services, acting as investment intermediary, providing consulting services, performing asset management activities, performing investment activities and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.

The Bank's subsidiary, KT Bank AG which is 100% owned by the Bank was established in April, 2015. Main field of its operations are providing interest free corporate banking services, acting as investment intermediary, providing consulting services, performing asset management activities, performing investment activities and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.

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

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

2.3 New and Revised International Financial Reporting Standards

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

None.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

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

IFRS 14	<i>Regulatory Deferral Accounts</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint Operations</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 19, IAS 34</i> ¹
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 *Regulatory Deferral Accounts*

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

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

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

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

2.3.2 New and Revised IFRSs applied with no material effect on the consolidated financial statements(continued)

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.

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

Annual Improvements 2012-2014 Cycle

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

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

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

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

Amendments to IAS 1 Disclosure Initiative

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

2.3.2 New and Revised IFRSs applied with no material effect on the consolidated financial statements(continued)

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

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

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

2.3.3 New and revised IFRSs in issue but not yet effective

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
IFRS 9	<i>Financial Instruments</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ²
IFRS 16	<i>Leases</i> ³

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

² Effective for annual periods beginning on or after 1 July 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

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

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

This amendment clarifies the following aspects:

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

Amendments to IAS 7 Disclosure Initiative

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

IFRS 9 Financial Instruments

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

IFRS 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.

Amendments to IFRS 15 Revenue from Contracts with Customers

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

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

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

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

IFRS 16 Leases

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

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

2.4 Functional and presentation currency

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (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, 2015	2.69	2.98
December 31, 2015	2.91	3.18
June 30, 2016	2.89	3.20

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiaries are (Kuwait Turkish Participation Bank Dubai Ltd and KT Bank AG) translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 2.92, EUR/TL 3.26 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, 2015.

2.7 Reclassifications

No reclassifications.

3. Segment Information

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

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

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

The Group's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the periods presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in the first half of 2016 or 2015.

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

For the period ended June 30, 2016	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Treasury, International & Investment Banking	Segments Total	Recon- ciliation	Notes	Grand Total
Income from financing activities & sukuk	267,468	247,437	295,562	484,813	128,736	1,424,016	-		1,424,016
Intersegment income	420,180	(60,352)	(155,452)	(250,016)	45,639	-	-		-
Total financing income	687,648	187,085	140,110	234,796	174,376	1,424,016	-		1,424,016
Profit shares distributed	(347,851)	(42,155)	(15,162)	(35,857)	(241,493)	(682,519)	15,083	(a)	(667,436)
Credit loss expense	(39,814)	(71,448)	(98,452)	(55,592)	(5,364)	(270,669)	-		(270,669)
Net financing income	299,983	73,483	26,496	143,347	(72,482)	470,827	15,084		485,911
Foreign exchange gain/loss, net	20,454	11,639	12,096	21,578	6,515	72,282	(0)		72,282
Net trading income	-	-	-	-	25,946	25,946	-		25,946
Net fees & commission and other income	55,729	79,785	45,172	91,719	25,916	298,322	-		298,322
Other expenses	(199,648)	(95,450)	(67,486)	(122,828)	(49,211)	(534,623)	(15,083)	(a)	(549,706)
Segment profit/(loss)	176,517	69,457	16,279	133,816	(63,315)	332,755	-		332,755
Tax expenses	-	-	-	-	-	-	(59,076)	(b)	(59,076)
Net profit for the year	176,517	69,457	16,279	133,816	(63,315)	332,755	(59,075)		273,679
Segment Assets	5,748,450	11,550,495	8,100,040	5,368,193	13,157,204	43,924,382	-		43,924,382
Segment Liabilities & Equity	19,655,093	7,095,416	1,663,168	1,434,821	10,075,363	39,923,861	4,000,521	(c)	43,924,382

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

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

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

For the period ended June 30, 2015	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Treasury, International & Investment Banking	Segments Total	Recon- ciliation	Notes	Grand Total
Income from financing activities & sukuk	220,733	448,609	240,464	172,968	50,868	1,133,642	-		1,133,642
Intersegment income	264,975	(158,056)	(131,595)	(94,160)	118,836	-	-		-
Total financing income	485,708	290,553	108,869	78,808	169,704	1,133,642	-		1,133,642
Profit shares distributed	(240,279)	(55,022)	(11,947)	(18,374)	(189,067)	(514,689)	879	(a, b)	(513,810)
Credit loss expense	(9,108)	(93,335)	(67,715)	(11,391)	-	(181,549)	-		(181,549)
Net financing income	236,321	142,196	29,207	49,043	(19,363)	437,404	879		438,283
Foreign exchange gain/loss, net	14,964	26,289	12,858	7,684	(39,563)	22,232	45,856	(b)	68,088
Net trading income	-	-	-	-	(6,864)	(6,864)	-		(6,864)
Net fees & commission and other income	49,022	65,242	33,777	80,649	20,784	249,474	(24,670)	(b)	224,804
Other expenses	(160,467)	(164,515)	(59,089)	(35,459)	(18,058)	(437,588)	(22,065)	(a, b)	(459,653)
Segment profit/(loss)	139,840	69,212	16,753	101,917	(63,064)	264,658	-		264,658
Tax expenses	-	-	-	-	-	-	(54,967)	(c)	(54,967)
Net profit for the year	139,840	69,212	16,753	101,917	(63,064)	264,658	(54,913)		209,745
Segment Assets	4,826,122	9,686,696	6,986,171	4,730,849	13,233,600	39,463,438	-		39,463,438
Segment Liabilities & Equity	16,413,858	6,006,025	1,509,979	2,478,714	9,616,454	36,025,030	3,438,408	(d)	39,463,438

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

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

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

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

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4. Cash and balances with banks

For the purpose of the consolidated cash flows statement, cash and cash equivalents comprise the following at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Cash on hand	1,244,672	1,754,547
Balances with the Central Bank of Turkey	685,831	215,812
Cash and balances with the Central Bank of Turkey	1,930,503	1,970,359
Balances with banks and other financial institutions	2,950,432	4,753,336
Sub Total	4,880,935	6,723,695
Less: Interbank precious metal deposits	(29,645)	(126,689)
Total	4,851,290	6,597,006

As of June 30, 2016 and December 31, 2015, “balances with other banks and financial institutions” are include demand and time deposits. The time deposits can be analyzed as follows:

	June 30, 2016				December 31, 2015			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	-	1,013,635	-	0.64%	-	1,154,714	-	0.64%
Total		1,013,635				1,154,714		

5. Financial assets

Available-for-sale

	June 30, 2016	December 31, 2015
Unlisted shares (*)	101,447	65,139
Financial Sukuk	3,064,021	2,289,057
Total available-for-sale financial assets	3,165,468	2,354,196

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

	Nature of business	%	June 30, 2016	December 31, 2015	
			Amount	%	Amount
KFH Global Sukuk Fund	Financial institution	-	54,978	-	55,244
Investment Fund	Financial institution	-	30,344	-	-
Neova Sigorta A.Ş.	Insurance company	6.99	5,201	6.99	4,956
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.69	4,719	1.75	4,210
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
VISA INC.	Financial Service	-	5,476	-	-
			101,447		65,139

The policies and explanatory notes on pages 6 through 31 form an integral part of these interim condensed consolidated financial statements.

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (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, 2016					December 31, 2015		
	Amount		Effective profit rate		Amount	Effective profit rate		
	TL	Foreign currency (TL equivalent)	TL	Foreign currency		TL	Foreign currency	
Financial Sukuk	1,520,240	1,543,781	8.60%	3.17%	1,588,907	700,150	8.93%	2.05%
Total		3,064,021				2,289,057		

6. Due from financing activities, net

	June 30, 2016	December 31, 2015
Performing		
Funds invested from profit/loss sharing accounts	11,806,824	11,284,505
Funds invested from current accounts and equity	13,882,318	12,375,111
Income accruals on due from financing activities (*)	679,657	946,895
	26,368,799	24,606,511
Funds in arrears		
Funds invested from profit / loss sharing accounts	327,900	220,568
Funds invested from current accounts and equity	291,476	232,242
	619,376	452,810
Total	26,988,175	25,059,321
Impairment allowance		
Funds invested from profit / loss sharing accounts	(209,821)	(158,078)
Funds invested from current accounts and equity	(339,668)	(232,201)
	(549,489)	(390,279)
Total due from financing activities	26,438,686	24,669,042

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

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (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, 2016	June 30, 2015
Balance at January 1,	390,279	432,191
Charge for the period	275,159	213,197
Charges for the profit/loss	177,469	141,839
Charge for the profit/loss sharing accounts	97,690	71,358
Recoveries of amounts previously provided for	(64,795)	(82,477)
Reserves written off in current period	(51,154)	(19,060)
Balance at the end of period	549,489	543,851

The impairment allowance of TL 549,489 (June 30, 2015 – TL 543,851) 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, 2016	December 31, 2015
Gross investment in finance leases	1,566,092	1,362,998
Unearned finance income	(193,170)	(180,139)
Total impaired receivables	5,405	3,506
Impairment allowance	(5,102)	(2,941)
Minimum lease payments receivable, net	1,373,225	1,183,424

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

	June 30, 2016	June 30, 2015
Balance at January 1	2,940	8,162
Charge for the period	2,228	2,602
Charges for the profit/loss	1,953	2,435
Charge for the profit/loss sharing accounts	275	167
Recoveries of amounts previously provided for	(66)	(566)
Impairment allowance written off in current period	-	(753)
Balance at the end of the period	5,102	9,445

The policies and explanatory notes on pages 6 through 31 form an integral part of these interim condensed consolidated financial statements.

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (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, 2016	December 31, 2015
Not later than 1 year	965,823	1,008,187
Later than 1 year and not later than 5 years	505,809	305,026
Later than 5 years	94,460	49,787
Non-performing receivables	5,405	3,505
Minimum lease payments receivable, gross	1,571,497	1,366,505
Less : Unearned finance income	(193,170)	(180,140)
Net investment in finance leases	1,378,327	1,186,365
Less : Allowance for impairment	(5,102)	(2,941)
Minimum lease payments receivable, net	1,373,225	1,183,424

As of June 30, 2016, TL 969,720 (December 31, 2015 - TL 838,140) of gross lease receivables is denominated in foreign currency (USD & EUR).

Net investment in finance leases as to their maturity:

	June 30, 2016	December 31, 2015
Not later than 1 year (*)	824,134	850,194
Later than 1 year and not later than 5 years	468,813	288,658
Later than 5 years	85,380	47,513
Net investment in finance leases	1,378,327	1,186,365

(*) Includes total impaired receivables amounting to TL 5,405 (December 31, 2015 – TL 3,505).

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, 2016		December 31, 2015	
	Foreign currency (full gr.)	TL	Foreign currency (full gr.)	TL
Gold (gr.)	9,394,677	1,146,126	4,518,889	451,319
Silver (gr.)	19,294,239	33,020	15,619,800	20,384
		1,179,146		471,703

The policies and explanatory notes on pages 6 through 31 form an integral part of these interim condensed consolidated financial statements.

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

9. Property and equipment

Acquisitions and disposals

During the six months ended June 30, 2016, the Group acquired assets with a cost of TL 55,325 (June 30, 2015 – TL 54,354).

Assets with a net book value of TL 9,694 were disposed of by the Group during six months ended June 30, 2016 (June 30, 2015 - TL 189), resulting in a net profit on loss TL 5,426 (June 30, 2015 – TL 125).

As of June 30, 2016 TL 35,744 (June 30, 2015 – TL 21,840) depreciation expenses of tangible assets have been charged.

10. Other assets

	June 30, 2016	December 31, 2015
Clearing accounts	490,170	260,179
Blockage for letter of guarantee	40,075	92,259
Prepaid expenses	69,979	36,484
Receivables from Banking Operations	11,454	9,555
Other	81,848	58,205
	693,526	456,682

11. Sukuk securities issued, Subordinated loans

Sukuk securities

Sukuk securities as of June 30, 2016 and December 31, 2015 are as follows;

	June 30, 2016	Amount in TL December 31, 2015
Sukuk certificates issued USD	2,470,143	2,481,958
Sukuk certificates issued TL	520,235	602,441
Sukuk certificates issued MYR	583,891	551,720
Total	3,574,269	3,636,119

The lease back of the real estate property, the total amount of semi-annual rental payments to be made to KT Sukuk Varlık Kiralama A.Ş. in 5 years and total amounting to USD 177,076 thousand is discounted with a profit share rate of 5.875% to the date of the transaction as USD 136,870 thousand and accounted for as financial lease payables.

The remaining part of the total funds of USD 350 million transferred by KT Sukuk Varlık Kiralama A.Ş. to the Bank which is not part of the sale and leaseback transaction and amounting to USD 213,130 thousand is accounted for as Funds Borrowed in the balance sheet.

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

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11. Sukuk securities issued, Subordinated loans (continued)

Subordinated loans

Subordinated loans as of June 30, 2016 and December 31, 2015 are as follows;

	Amount in TL	
	June 30, 2016	December 31, 2015
Subordinated loan provided by Kuwait Finance House ⁽¹⁾	586,887	589,734
Subordinated loan provided by other foreign banks ⁽²⁾	1,042,284	-
Total	1,629,171	589,734

⁽¹⁾ 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.

⁽²⁾ Kuwait Turkish Participation Bank, on February 17, 2016 Cayman Islands' as resident Special Purpose Vehicle (SPV) KT Sukuk Company Limited with over 350 million US dollars worth of sukuk issued by the BRSA by the issue in the Regulation on the Capital Adequacy requirements having a contribution, it has provided capital loans. BRSA dated 2 September 2015 and 20008792101.01[93]E.12819 Letter of Conformity No included in the loan be included in the calculation of capital contribution to the Bank / sukuk annual rate of return is 7.90%, 5 year maturity and repayment option at the end of the Bank 10 it is determined as years. Sukuk returns under the said payment, the implementation of the transfer price of the assets, expressed as a yearly rate of return will be calculated by and principal will be made in two equal installments on July 17 and February 17 each year.

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

12. Current and profit loss sharing investors' accounts

	June 30, 2016	December 31, 2015
Current accounts:		
Turkish Lira	5,233,557	4,591,567
Foreign currency	5,046,405	4,726,395
	10,279,962	9,317,962
Profit/loss sharing investors' accounts:		
Turkish Lira	10,672,359	9,925,400
Foreign currency	7,824,310	8,822,986
	18,496,669	18,748,386
Blocked accounts:		
Turkish Lira	31,791	13,977
Foreign currency	15,346	5,123
	47,137	19,100
Total current accounts and profit/loss investors' accounts	28,823,768	28,085,448
Expense accrual on current accounts and profit/loss sharing investors' accounts	61,600	59,843
Total current accounts and profit/loss sharing investors' accounts	28,885,368	28,145,291

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, 2016. This rate was 20% for the six month period ended June 30, 2015 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 2016 is 20%. (2015: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

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13. Income taxes (continued)

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 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, 2016	December 31, 2015
Current tax expense	42,842	159,529
Prepaid tax (-)	(16,230)	(123,057)
Income taxes payable	26,612	36,472

	June 30, 2016	June 30, 2015
Current tax expense	42,964	73,636
Deferred tax charge / (credit)	16,112	(18,669)
Total income tax charge	59,076	54,967

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

13. Income taxes (continued)

Deferred income tax as of June 30, 2016 and December 31, 2015 are attributable to the following items :

	Deferred tax assets / (liabilities)	
	June 30, 2016	December 31, 2015
Provision for impairment in due from financing activities	12,695	6,976
Reserve for employee termination benefits	7,256	5,913
Deferred income	33,564	27,131
Bonus accrual of personnel	8,178	11,646
Impairment provision for subsidiaries, fixed assets and assets held for sale	32,253	26,394
Effect of precious metals valuation	3,188	14,440
Derivative accrual	4,154	21,827
Effect of other temporary differences	1,019	1,696
Deferred tax accounted under shareholders' equity	7,034	7,578
Deferred tax assets	109,341	123,601
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(6,587)	(6,852)
Accounting for finance leases	(1)	(1)
Derivative accrual	-	-
Provision for non-cash loans and check commitments	(16,604)	(15,103)
Deferred tax accounted under shareholders' equity	(4,147)	-
Effect of other temporary differences	(4,878)	(3,176)
Deferred tax liabilities	(32,217)	(25,131)
Deferred tax asset – net	77,124	98,469

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

	June 30, 2016	June 30, 2015
Balance at the beginning of the year	98,469	43,953
Deferred income tax recognized in profit or loss	(16,112)	18,669
Deferred income tax relating to other comprehensive income	(5,233)	(513)
Balance at the end of the period	77,124	62,109

The policies and explanatory notes on pages 6 through 31 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, 2016 (Currency - In thousands of Turkish Lira - TL)

14. Share capital and other reserves

Share capital

	June 30, 2016	December 31, 2015
Number of common shares, 1 TL, par value. Authorized, issued and outstanding.	2,787 million	2,527 million

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

	June 30, 2016		June 30, 2015	
	Number	TL	Number	TL
At January 1	2,527,322,000	2,527,322	2,287,005,000	2,287,005
Shares issued in				
- cash	-	-	-	-
- bonus shares from retained earnings	260,000,000	260,000	240,000,000	240,000
- other	-	-	317,000	317
At June 30	2,787,322,000	2,787,322	2,527,322,000	2,527,322

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

As of June 30, 2016 and December 31, 2015, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Kuwait Finance House	1,736,531	62.24	1,575,097	62.33
Directorate of Vakıf Foundations, Turkey	522,267	18.72	473,716	18.74
The Public Institution for Social Security, Kuwait	251,100	9.01	227,757	9.01
Islamic Development Bank	251,100	9.01	227,757	9.01
Other	26,324	0.92	22,995	0.91
Total share capital	2,787,322	100	2,527,322	100

Other reserves

The Bank has bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank has bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (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 3,399 (June 30, 2015 – TL 38,958) from the profit of the year 2015.

	June 30, 2016	June 30, 2015
Ordinary shares		
Amount	3,399	38,958
TL (full) per share	0.001	0.015

In the Ordinary General Assembly Meeting dated 04 April 2016, the Bank decided on reserving primary reserves amount to TL 22,234; other reserves amount to TL 48,788 funded via retained profit from sales of real estates, cash dividend; dividend to management amount to TL 3,399; funding capital increase from internal sources via remaining net income amount to TL 259,524 and in return distributing additional capitalized shares proportioned to shareholder's stake in share capital; secondary reserves amount to TL 340 and remaining amount to 110,396 to extraordinary legal reserves, other reserve amount to TL 476 which obtained from research and development activities according to Law No. 5746 under Articles3, funding capital increase from internal sources.

16. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

- a) The following is a brief summary of significant contingencies and commitments as of June 30, 2016 and December 31, 2015 :

	June 30, 2016	December 31, 2015
Letters of guarantee issued by the Bank	7,700,021	7,340,216
Letters of credits	1,068,158	1,029,264
Commitments	2,396,793	2,792,914
Acceptance credits	70,678	84,108
Other guarantees	491,605	503,290
Total	11,727,255	11,749,792

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, 2016	December 31, 2015
Within one year	181	14
After one year but not more than five years	248,528	229,199
More than five years	475,246	438,559
Total	723,955	667,772

The policies and explanatory notes on pages 6 through 31 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, 2016 (Currency - In thousands of Turkish Lira - TL)

16. Commitments and contingencies (continued)

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements. As of June 30, 2016, the amount of the checks are TL 5,982,867 (December 31, 2015 – TL 5,180,693) and the bonds in collection are TL 1,175,684 (December 31, 2015 - TL 951,857).

17. Other Liabilities and provisions

	June 30, 2016	December 31, 2015
Clearing accounts	719,952	239,021
Withholding tax and other tax payables	50,652	46,929
Payables to exporters and suppliers	21,709	28,453
Security premium for participation funds	16,173	15,759
Deferred revenue for non cash loans	12,293	10,508
Deductions on resource utilization fund	1,734	1,593
Other provisions and liabilities	158,270	159,761
	980,783	502,024

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

18. Related party disclosures

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

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2016 and December 31, 2015 and also transactions which have been entered into with related parties during the six months period ended June 30, 2016 and 2015.

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

		June 30, 2016		December 31, 2015	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	Kuwaiti Dinar	55,050	525	145,312	1,384
	XAU (gr.)	147,541	18,000	175,679	17,546
KFH – Bahrain	BHD	31,115	239	37,854	293
	US\$	147,108	426	43,393	126
Auto Land A.S.	TL	-	74,300	-	75,138
Kuwait finance Malaysia	US\$	5,063	15	5,063	15
	XAU(gr)	5,001	610	4,001	400
Other related parties	-	-	51,183	-	52,485
			145,298		147,387

⁽¹⁾ Shareholders

ii) Due to banks & other financial institutions:

		June 30, 2016		December 31, 2015	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
Public Institute for Social Securities KW ⁽¹⁾	US\$	161,507,119	467,337	159,674,833	464,270
Kuwait Finance House ⁽¹⁾	US\$	270,302,046	782,146	527,070,267	1,532,508
Kuwait Finance House ⁽¹⁾	TL	-	107,998	-	-
ALAFCO	US\$	57,832,458	167,344	57,346,692	166,742
Islamic Development Bank ⁽¹⁾	US\$	442,701	1,281	7,090,334	20,618
			1,526,106		2,017,396

⁽¹⁾ Shareholders

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

18. Related party disclosures (continued)

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

		June 30, 2016		June 30, 2015	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	US\$	3,991,706	27,654	8,391,742	21,484
Islamic Development Bank ⁽¹⁾	US\$	-	-	137,883	353
Directorate of Vakıf Foundations, Turkey ⁽¹⁾	TL	-	629	-	95
Neova Sigorta (*)	TL	-	641	-	2,070
Public Institute for Social Securities KW ⁽¹⁾	US\$	1,341,308	3,914	1,608,411	4,118
			32,838		28,120

(1) Shareholders

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

iv) Profit shares distributed :

		June 30, 2016		June 30, 2015	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	US\$	3,991,706	11,648	8,391,742	21,484
Islamic Development Bank ⁽¹⁾	US\$	-	-	137,883	353
Directorate of Vakıf Foundations, Turkey ⁽¹⁾	TL	-	629	-	95
Neova Sigorta (*)	TL	-	641	-	2,070
Public Institute for Social Securities KW ⁽¹⁾	US\$	571	2	1,608,411	4,118
			12,920		28,120

(1) Shareholders

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

v) Non-cash credits issued :

5		June 30, 2016		December 31, 2015		
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent	
	Kuwait Finance House ⁽¹⁾	US\$	10,378,355	30,031	4,657,800	13,543
	Kuwait Finance Malaysia	US\$	40,000	116	40,000	116
	Other related parties	TL		299		615
			30,446			14,275

(1) Shareholders

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

18. Related party disclosures (continued)

Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 15,337 during the six months period ended June 30, 2016 (For the six months ended June 30, 2015 - TL 13,073).

The key management personnel of the Bank are as follows;

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

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

19. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of 30 June 2016, the fair value of financing and leasing receivables has been estimated as TL 27,112,779 (December 31, 2015 – TL 27,568,091) whereas their carrying amount is TL 27,811,911 (December 31, 2015 – TL 25,852,466).

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, 2016 are given in the table below:

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Selected notes to interim condensed consolidated financial statements as at June 30, 2016 (Currency - In thousands of Turkish Lira - TL)

19. Fair value of financial instruments (continued)

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	79,735	89,582	-	169,317
Forward transactions	-	16,997	-	16,997
Swap transactions	-	72,585	-	72,585
Sukuk held for trading	79,735	-	-	79,735
Available-for-sale financial assets	3,064,021	-	-	3,064,021
Government debt securities	2,772,535	-	-	2,772,535
Other marketable securities	291,486	-	-	291,486
Financial liabilities				
Financial liabilities held for trading	-	126,989	-	126,989
Forward transactions	-	15,610	-	15,610
Swap transactions	-	111,379	-	111,379
Prior Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	44,824	44,606	-	89,430
Forward transactions	-	15,836	-	15,836
Swap transactions	-	28,770	-	28,770
Other	207	-	-	207
Sukuk held for trading	44,617	-	-	44,617
Available-for-sale financial assets	2,289,057	-	-	2,289,057
Government debt securities	1,906,949	-	-	1,906,949
Other marketable securities	382,108	-	-	382,108
Financial liabilities				
Financial liabilities held for trading	-	170,173	-	170,173
Forward transactions	-	13,739	-	13,739
Swap transactions	-	156,434	-	156,434

20. Subsequent events:

The Parent Bank decided to decrease paid-in capital of Kuwait Turkish Participation Bank Dubai Limited from USD 54,099,362 to USD 50,000,000 with the decision no 1658 of board of directors dated 27 July 2016.

The Parent Bank, decided to increase the capital of KT Bank AG – one of its subsidiaries - from EUR 45,000,000 to EUR 60,000,000 with the decision no 1658 of board of directors dated 27 July 2016.

The Parent Bank made a deal on the disposal of the shares on KT Portföy Yönetimi A.Ş. - one of its subsidiaries - to KFH Capital Investments Company K.S.C or one of the direct or indirect associates and subsidiaries or any other partnership of Kuwait Finance House K.S.C.P. The Bank will make an application to Capital Markets Board of Turkey for transfer of equity interest.