

**Kuveyt Türk Katılım Bankası
Anonim Şirketi**

**Consolidated financial statements together with
independent auditors' report December 31, 2009**

Table of contents

	<u>Page</u>
Independent auditors' report	1
Consolidated statement of financial position	2
Consolidated statement of comprehensive income	3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6 - 59

Independent auditors' report to the board of directors of Kuveyt Türk Katılım Bankası Anonim Şirketi on the consolidated financial statements for the year ended December 31, 2009

We have audited the accompanying financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

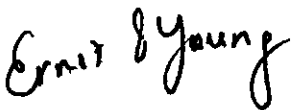
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Katılım Bankası Anonim Şirketi A.Ş. and its subsidiaries as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 16, 2010
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of financial position

As at December 31, 2009

(Currency – In thousands of Turkish Lira - TL)

	Notes	2009	2008
Assets			
Cash and balances with the Central Bank	4	239,090	248,988
Balances with other banks and financial institutions	4, 29	903,319	938,608
Reserve deposits at the Central Bank	5	218,689	213,421
Financial assets – held for trading	6, 29	27	64
Financial assets – available-for-sale	6, 29	4,520	1,389
Financial assets – held to maturity	6, 29	7,529	7,583
Due from financing activities, net	8, 29	4,586,786	3,879,553
Minimum finance lease payments receivable, net	9, 29	53,512	113,475
Derivative financial instruments	20, 29	9,925	13,933
Other assets	10, 29	590,221	123,008
Construction projects, net	11	3,025	3,087
Investment in associate	7	12,315	-
Investment properties, net	12	47,207	67,586
Property and equipment, net	14	108,180	84,150
Intangible assets, net	15	8,256	2,847
Deferred tax assets	18	12,749	14,596
		6,805,350	5,712,288
Assets and a disposal group held for sale	13	9,547	6,410
Total assets		6,814,897	5,718,698
Liabilities and equity			
Due to other financial institutions and banks	16	383,681	820,954
Current and profit / loss sharing investors' accounts	17	5,545,201	4,119,460
Other liabilities	19	49,422	46,114
Provisions	19	7,107	6,319
Derivative financial instruments	20	6,231	25,664
Income taxes payable	18	5,774	11,487
		5,997,416	5,029,998
Liabilities directly associated with assets classified as held for sale	13	-	-
Total liabilities		5,997,416	5,029,998
Share capital	21	500,000	500,000
Share premium	21	23,250	23,250
Legal reserves and retained earnings		294,231	165,450
Total equity attributable to equity holders of the parent		817,481	688,700
Total liabilities and equity		6,814,897	5,718,698

The policies and explanatory notes on pages 6 through 59 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of comprehensive income For the year ended December 31, 2009 (Currency – In thousands of Turkish Lira - TL)

	Notes	2009	2008
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		427,298	343,087
Profit on originated loans from current accounts and equity		150,245	116,789
Profit on deposits with other banks and financial institutions		35,878	32,427
Profit on finance leases		7,219	15,803
Total income from financing activities		620,640	508,106
Profit shares distributed to participation accounts		(349,348)	(306,462)
Profit shares distributed to other banks and financial institutions		(20,496)	(30,234)
Net financing income		250,796	171,410
Provision for impairment of amounts due from financing activities and lease receivables	8, 9	(64,821)	(83,306)
Net financing income after provision for impairment in due from financing activities and lease receivables		185,975	88,104
Foreign exchange gain, net		32,731	35,154
Net financing income after net foreign exchange gain / (loss)		218,706	123,258
Fees and commission income	25	157,436	151,015
Income/(loss) from construction projects, net		642	159
Net trading income		47,762	49,719
Other income		10,904	13,644
Share of profit of an associate	7	30	-
Total other operating income		216,774	214,537
Fees and commission expense	25	(28,552)	(25,326)
Staff costs	26	(134,297)	(110,735)
Depreciation and amortization expense		(18,216)	(15,430)
Withholdings and other taxes		(4,503)	(4,143)
Rent expense		(19,811)	(14,326)
Other expenses	27	(63,126)	(48,463)
Total other operating expense		(268,505)	(218,423)
Income before taxation		166,975	119,372
Current tax charge	18	(34,902)	(32,215)
Deferred tax (charge)/credit	18	(1,847)	6,710
Net income for the year from continuing operations		130,226	93,867
Net income/(loss) after tax for the year from a discontinued operation	13	4,055	(2,599)
Net income for the year		134,281	91,268
Other comprehensive income for the year		-	-
Total comprehensive income for the year		134,281	91,268
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	0.269	0.218
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share) from continuing operations	23	0.260	0.224

The policies and explanatory notes on pages 6 through 59 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Consolidated statement of changes in equity
For the year ended December 31, 2009
(Currency – In thousands of Turkish Lira - TL)**

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Total
Balances at January 1, 2008		260,000	23,250	7,906	113,266	404,422
Share capital increase	21	240,000	-	-	(40,000)	200,000
Transfer from retained earnings to legal reserves		-	-	4,406	(4,406)	-
Dividends paid	22	-	-	-	(6,990)	(6,990)
Total comprehensive income for the year		-	-	-	91,268	91,268
Balances at December 31, 2008		500,000	23,250	12,312	153,138	688,700
Transfer from retained earnings to legal reserves		-	-	5,754	(5,754)	-
Dividends paid	22	-	-	-	(5,500)	(5,500)
Total comprehensive income for the year		-	-	-	134,281	134,281
Balances at December 31, 2009		500,000	23,250	18,066	276,165	817,481

The policies and explanatory notes on pages 6 through 59 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of cash flows
For the year ended December 31, 2009
(Currency – In thousands of Turkish Lira - TL)

	Notes	2009	2008
Cash flows from operating activities:			
Income from continuing operations before taxation		166,975	119,372
Income/(loss) from discontinued operations before taxation		4,055	(2,599)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12, 14, 15	18,216	15,430
Provision for employee termination benefits and personnel bonus accrual	19	1,715	3,627
Provision for impairment in due from financing activities and lease receivables	8, 9	64,821	83,306
Provision for impairment in intangible assets, property and equipment and investment properties	12	1,259	28
Income accrual of funds invested	8	201,660	(275,870)
Expense accrual of participation accounts	17	13,285	5,229
Income accrual from deposits at the Central Bank of Turkey		1,608	(1,339)
Income taxes paid		(40,615)	(28,202)
Expense accrual of funds borrowed		(8,154)	5,475
Net change in derivative financial instruments	20	(15,425)	9,062
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		1,707	1,771
Gain on sale of discontinued operation		5,392	(691)
Fair value movement of held for trading securities	6	-	69
Exchange gain of held to maturity investment	6	54	(1,731)
Operating income before changes in operating assets and liabilities		416,553	(67,063)
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(6,875)	(20,271)
Due from financing activities	8	(973,227)	(939,343)
Minimum finance lease payments receivables		59,475	47,465
Other assets and construction projects		(462,929)	(129,244)
Current accounts and profit/loss sharing investors' accounts	17	1,412,455	1,144,561
Other liabilities		820	11,742
Payment for employee termination benefits	19	(829)	(534)
Net cash provided by operating activities		445,443	47,313
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(3,158)	(812)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	64	-
Purchase of property and equipment, intangible assets and investment properties	12, 14, 15	(63,314)	(42,861)
Proceeds from sale of property and equipment, intangible assets and investment properties		6,239	5,231
Additions to assets and liabilities held for sale	13	(7,130)	(5,229)
Proceeds from sale of asset and liabilities held for sale	13	4,023	1,765
Net cash used in investing activities		(63,276)	(41,906)
Cash flows from financing activities:			
Dividends paid	22	(5,500)	(6,990)
Increase in due to financial institutions and banks		(429,119)	382,161
Increase in share capital	21	-	200,000
Net cash provided by financing activities		(434,619)	575,171
Net increase in cash and cash equivalents		(52,452)	580,578
Net foreign exchange difference on cash and cash equivalents		7,265	29,913
Cash and cash equivalents at the beginning of the year	4	1,187,596	577,105
Cash and cash equivalents at the end of the year	4	1,142,409	1,187,596
Profit share received		804,925	232,236
Profit share paid		384,060	331,467

The policies and explanatory notes on pages 6 through 59 form an integral part of the consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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 permission 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/Istanbul/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 consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on April 16, 2010. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

At December 31, 2009, 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 associate, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank had a 100% shareholding was incorporated in June 1996 in Turkey. The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) in exchange for USD 10,613,000 and TL 2,450. The remaining 49% of its shares have been classified under the investment in an associate in the accompanying financial statements. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/Istanbul. 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 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 of 199 "time-sharing" houses in Edremit-Balıkesir.

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial investments held for trading and precious metals that have been measured at fair value.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

The Bank and its subsidiaries (collectively – the Group) maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements as of December 31, 2009 are consistent with the previous financial year, except for the adoption of new standards and IFRIC interpretations which are noted below.

New and amended standards and interpretations applicable to December 2009 year-end

The new standards which are effective as of January 1, 2009 and changes and interpretations of current standards are as follows:

- Amendments to IFRS 2 'Share Based Payment' – Vesting Conditions and Cancellations
- Amendments to IFRS 7 'Financial Instruments: Disclosures'
- IFRS 8 'Operating Segments' Amendments to IAS 1 'Presentation of Financial Statements'
- Amendment to IAS 23 'Borrowing Costs' Amendments to IAS 32 and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation' IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement - Embedded Derivatives (Amendments) IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 15 'Agreements for the Construction of Real Estate' IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' IFRIC 18 'Transfer of Assets from Customers' (effective for transfers of assets received on or after July 1, 2009)

The above changes do not have any impact on financial position and performance of the Group other than the additional explanations made in the disclosures.

Improvements to IFRS (issued in May 2008)

In May 2008, International Accounting Standards Board (IASB) has issued amendments in order to eliminate the inconsistencies and clarify the explanations related to standards. Transitional provisions and application periods vary for each amendment which is 1 January 2009 for the earliest.

Standards amended by IASB in May 2008 are as follows:

- IFRS 5 "Noncurrent assets held for sale and discontinued operations"
- IAS 8 "Accounting policies, changes in accounting estimates and errors"
- IAS 10 "Events after the reporting period"
- IAS 16 "Property, plant and equipment"
- IAS 18 "Revenue"
- IAS 19 "Employee benefits"
- IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"
- IAS 27 "Consolidated and separate financial statements" (amendment)
- IAS 28 "Investments in associates"
- IAS 29 "Financial reporting in Hyperinflationary economies"
- IAS 31 "Interests in joint ventures"
- IAS 36 "Impairment of assets"
- IAS 38 "Intangible assets"
- IAS 39 "Financial Instruments: Recognition and Measurement"
- IAS 40 "Investment Property"
- IAS 41 "Agriculture" (Amendment)

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

IFRIC 9 (Reassessment of Embedded Derivatives) and IAS 39 Financial Instruments: Recognition and Measurement

IAS 34 "Interim financial reporting"

Standards, interpretations and amendments to published standards that are not yet effective

The new standards which are issued as of the authorization date of the financial statements and effective as of January 1, 2010 and thereafter and not early adopted by the Company and changes and interpretations of current standards are as follows:

- a) New and amended standards and interpretations applicable as of December 31, 2010 year-end
- Improvements to International Financial Reporting Standards (issued in 2009)
 - Amendments to IFRS 2 'Group cash settled share based Payment Transactions'
 - Amendments to IFRS 3 "Business Combinations" and IAS 27 "Amendments to Separate Financial Statements"
 - Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items"
 - IFRIC 17 "Distributions of Non-cash Assets to Owners"

The above changes are not expected to have any impact on financial position and performance of the Group

- b) New and amended standards and interpretations issued that are effective subsequent to December 31, 2010 year-ends
- IFRS 9 "Financial Instruments" (Effective for periods beginning on or after 1 January 2013)
 - Amendment to IAS 24 "Related Party Disclosures" (Effective for periods beginning on or after 1 January 2011)
 - Amendment to IAS 32 Classification of Rights Issues (Effective for periods beginning on or after 1 February 2010)
 - Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" (Effective for periods beginning on or after 1 January 2011, with earlier application permitted)
 - IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (Effective for periods beginning on or after 1 July 2010, with earlier application permitted)

Except for IFRS 9 the above changes are not relevant to the Group and thus will not have any impact on financial position and performance of the Group. Phase I of IFRS 9, the new accounting standard that will eventually replace IAS 39, issued in November 2009, establishes a new classification and measurement framework for financial assets. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard will be applied retrospectively with certain transition provisions. IFRS 9 is not expected to have a significant impact on the financial statements of the Group.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

2.3.1 Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to financial statements. Management exercises judgment and makes use of information available at the date of the preparation of the financial statements in making these assumptions and estimates. The uncertainty about these judgments and estimates could result in outcomes that may have a material effect on future financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements relate to, impairment losses on due from financing activities and lease receivables and pensions which are discussed in the relevant sections of this note below:

The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 19. There are judgments made by management during the estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets. Such estimations are disclosed in the relevant notes.

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in Note 30.

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 Ltd is US Dollar. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2009 and 2008 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

Consolidation of subsidiaries

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2009 and 2008 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2009 and 2008, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal is recognized in the consolidated income statement as net income/ (loss) after tax for the year from a discontinued operation.

Upon loss of control, the Bank accounts for the investment retained at its proportionate share of net asset value at the date the control is lost.

The financial statements of the Subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material balances and transactions between the Bank and Subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries and investment in associates subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2009	December 31, 2008
"Körfez" (*)	Turkey	49%	100%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Dubai Limited"	Turkey	100%	-

(*) The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL 2,450. According to IAS 28 "Investments in Associates", the remaining 49% of its shares of Körfez have been classified under the investment in an associate in the accompanying financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2007	1.16	1.71
December 31, 2008	1.51	2.14
December 31, 2009	1.51	2.16

Foreign Subsidiary

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 1.5463 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3–6.67 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period/year the asset is derecognized.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Construction projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading, the change in value is recognized through profit and loss.

Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment. For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealized gains and losses are recognized directly in other comprehensive income under equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective yield method. Gains or losses are recognized in profit or loss when the investments are derecognized as impaired, as well as through the amortization process.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Due from financing activities, net

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as “due from financing activities” and are carried at amortized cost using the effective profit rate. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs, and all other premiums or discounts. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective profit rate of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.

Precious metal accounts

Gold transactions are accounted under “precious metal depot account” in other assets and valuation is performed with the current ounce of gold prices in the market.

Derivative financial instruments

The Bank enters into transactions with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group’s risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 “Financial Instruments: Recognition and Measurement”, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis.

Embedded derivatives

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of financial assets

a) *Assets carried at amortized cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
- (c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
 - (i) adverse changes in the payment status of borrowers; or
 - (ii) national or local economic conditions that correlate with defaults on the assets of the Bank.

2. Summary of significant accounting policies (continued)

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and

the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

b) Available for sale financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

c) Available-for-sale financial assets carried at fair value

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment regarding equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

d) Renegotiated financing and leasing receivables

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

Due to other financial institutions and banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

Leases

The group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

The group as lessor

Finance lease

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and expense recognition

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Effective January 1, 2009, the Bank deferred fees and commissions which are collected as an integral part of the profit share rate on loans granted after such date. As of December 31, 2009 such deferred fees and commissions amounted to TL 24,934. Due to limitations on system capabilities it was impracticable to collect data to calculate the effect of deferral on fees and commissions for loans granted prior to January 1, 2009. Consequently, retrospective application could not have been performed.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 75% - 90% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

Income earned on available-for-sale equity investments, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

Income tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

Related parties

Parties are considered related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control (this includes parents, subsidiary and fellow subsidiary);
 - (ii) has an interest that gives it significant influence; or
 - (iii) has joint control;
- (b) the party is an associate;
- (c) the party is a joint venture;
- (d) the party is a member of the key management personnel;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees or of any entity that is a related party.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Segment information

For management purposes, the Bank 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 Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

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 interest revenue as a performance measure, not the gross income and expense.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2009 and 2008, respectively.

For the year ended December 31, 2009	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	64,921	354,652	52,176	-	471,749
Intersegment (*)	136,972	(133,841)	(3,131)	-	-
Total operating income	201,893	220,811	49,045	-	471,749
Credit loss expense	(30,443)	(34,378)	-	-	(64,821)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	171,450	186,433	49,045	-	406,928
Results					
Net profit share income/(expense)	140,453	96,658	13,685	-	250,796
Net fees and commission income	58,069	90,484	(19,669)	-	128,884
Net trading income	-	-	47,762	-	47,762
Segment profit/(loss)	194,843	213,472	45,218	(282,503)	171,030
Income tax expense	-	-	-	(36,749)	(36,749)
Net profit for the year	194,843	213,472	45,218	(319,252)	134,281
Asset and liabilities as of December 31, 2009					
Assets					
Capital expenditures					
Property and equipment	-	-	-	44,063	44,063
Other intangible assets	-	-	-	6,577	6,577
Total assets	2,004,585	2,901,781	1,520,268	388,263	6,814,897
Total liabilities	3,767,615	1,602,384	389,912	237,505	5,997,416

(*) Major part of the Bank's deposit consists of retail banking customers, whereas majority of loans granted to corporate and commercial banking customers. Accordingly, in the segment reporting the Bank 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

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting (continued)

For the year ended December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	70,289	272,688	52,798	-	395,775
Intersegment	141,231	(108,587)	(32,644)	-	-
Total operating income	211,520	164,101	20,154	-	395,775
Credit loss expense	(24,652)	(58,654)	-	-	(83,306)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	186,868	105,447	20,154	-	312,469
Results					
Net profit share income/(expense)	129,447	51,773	(9,810)	-	171,410
Net fees and commission income	70,217	75,163	(19,691)	-	125,689
Net trading income	-	-	49,719	-	49,719
Segment profit/(loss)	203,405	159,460	17,479	(263,572)	116,772
Income tax expense	-	-	-	(25,505)	(25,505)
Net profit for the year	203,405	159,460	17,479	(289,077)	91,267

Asset and liabilities as of December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Assets					
Capital expenditures	-	-	-	34,165	34,165
Property and equipment	-	-	-	2,331	2,331
Other intangible assets	-	-	-	-	-
Total assets	1,145,331	2,878,590	1,521,982	172,795	5,718,698
Total liabilities	2,691,682	1,223,873	979,191	135,252	5,029,998

4. Cash and balances with banks

	2009	2008
Cash on hand	58,161	63,976
Balances with the Central Bank	180,929	185,012
Cash and balances with the Central Bank	239,090	248,988
Balances with foreign banks	512,128	310,917
Balances with domestic banks	384,770	625,383
Current accounts in participation banks	6,421	2,308
Balances with other banks and financial institutions	903,319	938,608
Cash and cash equivalents	1,142,409	1,187,596

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks (continued)

As of December 31, 2009 and 2008, "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 follows:

	2009				2008			
	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	104,000	249,515	6.84%	0.32%	-	292,969	-	1.80 %
Total	104,000	249,515				292,969		

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31, 2009 and 2008:

	2009	2008
Cash and balances with the Central Bank	239,090	248,988
Balances with Banks and other financial institutions	903,319	938,608
Cash at banks and on hand attributable to discontinued operation	-	-
Total	1,142,409	1,187,596

5. Reserve deposits at the central bank of Turkey

	2009		2008	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US\$	143,915,787	216,694	138,522,788	209,488
EUR	-	-	-	-
TL	-	1,995	-	3,933
		218,689		213,421

As of December 31, 2009, the interest rate applied for Turkish Lira reserve deposits are 5.20% (December 31, 2008 – 12%) respectively.

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets

Available-for-sale

	2009	2008
<u>At cost</u>		
Unlisted shares (*)	4,520	1,389
Total available-for-sale financial assets	4,520	1,389

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

		2009		2008	
Nature of business		%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	8.99	714	8.99	577
Neova Sigorta A.Ş.	Insurance	6.99	1,806	6.99	812
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.67	2,000	-	-
			4,520		1,389

The Bank made capital commitment amounting to TL 4,000 to Kredi Garanti Fonu A.Ş. in 2009 and paid the TL 2,000 of the related commitment on October 15, 2009.

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments. The Group does not intend to dispose its shares in IRA, Neova Sigorta A.Ş. and KGF.

Held to maturity

Held to maturity assets include a Sukuk investment amounting to TL 7,529 that is invested by the Bahrain branch of the Bank (December 31, 2008 – TL 7,583). Islamic bond products are represented by Sukuks. It has a maturity that is determined in advance and is backed by an asset which makes it possible for the investment to earn a return without payment of interest. Sukuks are structured in such a way that their holders run a credit risk and receive part of the profit in advance. The maturity of the Sukuk is 2010 with quarterly payments. The rate of the Sukuk is Libor+2%.

Held for trading

Financial assets held for trading includes share certificates listed in the Istanbul Stock Exchange (ISE) amounting to TL 27 (December 31, 2008 – TL 64).

The movement in financial assets may be summarized as follows:

Financial investments	2009			2008		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	1,389	7,583	64	577	5,852	133
Exchange differences	-	(54)	-	-	1,731	-
Additions	3,131	-	27	812	-	-
Disposals (sale and redemption)	-	-	(64)	-	-	-
Fair value movement	-	-	-	-	-	(69)
Impairment losses	-	-	-	-	-	-
Balance at the end of the year	4,520	7,529	27	1,389	7,583	64

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets (continued)

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 December 31, 2009 are given in the table below:

Current period	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	-	9,952	-	9,952
Forward transactions	-	1,425	-	1,425
Swap transactions	-	8,500	-	8,500
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	27	-	27
Available for sale financial assets	-	-	-	-
Share certificates	-	-	-	-
Government debt securities	-	-	-	-
Other marketable securities	-	-	-	-
Financial liabilities				
Financial liabilities held for trading	-	6,231	-	6,231
Forward transactions	-	4,659	-	4,659
Swap transactions	-	1,572	-	1,572
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-

7. Investment in associate

The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL 2,450. The remaining 49% of its shares have been classified under the investment in an associate in the accompanying financial statements.

	2009	2008
Share of the associate's statement of financial position:		
Current assets	5,588	-
Non-current assets	18,322	-
Current liabilities	(1,624)	-
Non-current liabilities	(9,971)	-
Equity	12,315	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2009**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Investment in associate (continued)

	2009	2008
Income	544	-
Expense	(514)	-
Net income/(expense)	30	-

(*) Körfez was a fully owned consolidated subsidiary in 2008.

8. Due from financing activities, net

	2009	2008
Performing		
Funds invested from profit/loss sharing accounts	2,695,133	1,878,013
Funds invested from current accounts and equity	1,653,503	1,587,408
Income accruals on due from financing activities (*)	115,271	316,931
	4,463,907	3,782,352
Funds in arrears		
Funds invested from profit / loss sharing accounts	178,259	144,140
Funds invested from current accounts and equity	126,770	110,729
	305,029	254,869
Total	4,768,936	4,037,221
Impairment allowance		
Funds invested from profit / loss sharing accounts	(92,115)	(80,853)
Funds invested from current accounts and equity	(90,035)	(76,815)
	(182,150)	(157,668)
Total due from financing activities	4,586,786	3,879,553

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

As of December 31, 2009 the Bank took possession of collateral (lands and buildings) from customers amounting to TL 19,804 (December 31, 2008 - TL 14,033), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2009**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

8. Due from financing activities, net (continued)

The movement in impairment allowance is as follows:

	2009	2008
Balance at the beginning of the year	157,668	82,109
Provisions - participation accounts	51,613	37,115
Provisions - bank	64,164	81,612
Recoveries of amounts previously provided for	(14,279)	(13,286)
Reserves written off in current year (*)	(77,016)	(29,882)
Balance at the end of the year	182,150	157,668

(*) In 2009, non-performing loans for which a 100% provision was made in prior periods amounting in total to TL 77,114 were written off (2008 – TL 29,882).

The impairment allowance of TL 182,150 (December 31, 2008 – TL 157,668) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the collective reserve allowance for financing receivables are as follows:

	2009	2008
Balance at beginning of year	19,469	12,728
Provisions - bank	3,636	2,495
Provisions - participation accounts	(2,186)	4,246
Recoveries and write-offs	-	-
Allowance at the end of the year	20,919	19,469

9. Minimum finance lease payments receivable, net

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

	2009	2008
Gross investment in finance leases	55,403	113,802
Unearned finance income	(5,417)	(10,859)
Total impaired receivables	4,809	16,606
Impairment allowance	(1,283)	(6,074)
Minimum lease payments receivable, net	53,512	113,475

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2009**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

9. Minimum finance lease payments receivable, net (continued)

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

	2009	2008
Balance at 1 January	6,074	3,574
Provisions - participation accounts	2,164	3,598
Provisions - Bank	657	1,694
Recoveries of amounts previously provided for impairment allowance written off in current year	(4,428) (3,184)	(652) (2,140)
Balance at the end of the year	1,283	6,074

Gross investment in finance leases as to their maturity:

	2009	2008
Not later than 1 year (*)	37,224	81,271
Later than 1 year and not later than 5 years	22,973	49,137
Later than 5 years	15	-
Minimum lease payments receivable, gross	60,212	130,408
Less : Unearned finance income	(5,417)	(10,859)
Net investment in finance leases	54,795	119,549
Less : Allowance for impairment	(1,283)	(6,074)
Minimum lease payments receivable, net	53,512	113,475

(*) includes total impaired receivables amounting to TL 4,809 (December 31, 2008 – TL 16,606).

As of December 31, 2009 TL 48,103 (December 31, 2008 - TL 98,706) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2009	2008
Not later than 1 year (*)	34,775	73,412
Later than 1 year and not later than 5 years	20,007	46,137
Later than 5 years	13	-
Net investment in finance leases	54,795	119,549

(*) includes total impaired receivables amounting to TL 4,809 (December 31, 2008 – TL 16,606).

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

10. Other assets

Other assets comprise the following:

	2009	2008
Precious metals	409,854	99,762
Blockage for guarantees given (*)	107,937	-
Prepaid expenses	2,862	3,084
Receivable from assets sold	1,827	2,387
Value added tax (VAT) receivable	904	1,788
Other	66,837	15,987
	590,221	123,008

(*) Guarantees given for loan customers are recorded in this account as blockage.

11. Construction projects, net

Construction projects mainly include the Güre Premises (time sharing houses) which belong to one of the subsidiary of the Bank, Körfez Tatil Beldesi.

	2009	2008
Completed construction projects (inventories) (*)	13,139	13,201
Receivables from construction projects	218	218
	13,357	13,419
(Less) Reserve for net realizable value	(10,114)	(10,114)
(Less) Reserve for doubtful receivables	(218)	(218)
Total construction projects, net	3,025	3,087

(*) In 2008, Körfez sold Güre premises to Körfez Tatil Beldesi.

12. Investment properties, net

	2009	2008
Balance at the beginning of the year	67,586	59,389
Additions	12,674	6,364
Disposal (*)	(27,199)	(873)
Depreciation charge	(950)	(733)
Impairment allowance (Note 27)	(1,259)	(28)
Transfer to assets held for sale (Note 13)	(10,384)	(125)
Transfer from assets held for sale (Note 13)	6,739	1,937
Transfer from property and equipment (Note 14)	-	1,655
Balance at the end of the year	47,207	67,586
Cost	52,277	70,447
Accumulated depreciation	(3,667)	(2,717)
Accumulated impairment	(1,403)	(144)
Net carrying amount	47,207	67,586

(*) In 2009 investment property of the Group amounting to 24,894 has been disposed due to sale of Körfez Gayrimenkul.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

12. Investment properties, net (continued)

Fair value of the investment properties is TL 60,843 (December 31, 2008 - TL 78,007) which is determined based on the valuations performed by independent qualified valuers on December 2009.

In the current economical conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

13. Assets and a disposal group held for sale

At December 31, 2009, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 7,130 (December 31, 2008 – TL 7,669), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

	2009	2008
Balance at the beginning of the year	6,410	6,673
Additions	7,130	7,669
Transfer from investment property (Note 12)	10,384	125
Transfer to investment property (Note 12)	(6,739)	(1,937)
Disposal	(7,628)	(1,955)
Disposal of subsidiary	-	(4,165)
Impairment	(10)	-
Balance at the end of the year	9,547	6,410

Gain on sale of assets held for sale amounting to TL 1,786 is included in other income in the income statement (December 31, 2008 – TL 1,046).

The Bank has disposed 65% of its shares in Auto Land to Baytik Capital Holding B.S.C in return for TL 1,147 and 35% of its shares to A'ayan Leasing and Investment Company in return for TL 618 in accordance with the sale agreement dated February 28, 2008. Accordingly, in the consolidated financial statements as of December 31, 2008 Auto Land is included in the discontinued operations.

The results of Auto Land included in Group's financial statements until its disposal on February 28, 2008 are presented below:

	2009	2008
Foreign exchange gain/(loss), net	-	(36)
Other income	-	13
Staff costs	-	(98)
Depreciation and amortization expense	-	(151)
Other expense	-	(20)
Effects of consolidation	-	(108)
Loss for the period from discontinued operation	-	(400)
Gain on disposal of the discontinued operation	-	691
Attributable tax expense	-	-
Gain/(loss) after tax for the period from discontinued operation	-	291

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

13. Assets and a disposal group held for sale (continued)

Cash inflow on sale is as follows:

	2009	2008
Consideration received	-	1,765
Net cash disposal with the subsidiary	-	(77)
Net cash inflow	-	1,688

The net cash flows incurred by Auto Land are as follows:

	2009	2008
Operating	-	(131)
Net cash outflow	-	(131)

The partial disposal of Körfez Gayrimenkul has been finalized on November, 2009 and the Group signed a sales contract with Hayat Investment Company with respect to the sale of 51% shares of Körfez Gayrimenkul. Accordingly, in the consolidated financial statements as of December 31, 2009 profit/loss from Körfez until the date of the sale is included in the discontinued operations.

The results of Körfez Gayrimenkul included in Group's financial statements for the years are presented below:

	December 31, 2009	December 31, 2008
Financial income/(expense), net	1,768	(7,853)
Other income/(expense), net	(1,949)	7,637
General Administrative expenses	(1,120)	(2,778)
Revenue, net	123	478
Effects of consolidation	(159)	(83)
Gain on sale of shares	5,392	-
Net gain/(loss) for the year	4,055	(2,599)

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

14. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2008, net of accumulated depreciation and impairment	40,658	16,845	11,779	404	56	69,742
Additions	46	22,232	11,796	91	-	34,165
Disposals	(1,583)	(840)	(1,709)	(91)	-	(4,223)
Depreciation charge for the year	(555)	(6,774)	(6,535)	(15)	-	(13,879)
Transfer from/(to) investment property	-	(1,655)	-	-	-	(1,655)
At December 31, 2008, net of accumulated depreciation and impairment	38,566	29,808	15,331	389	56	84,150
Additions	17,155	19,745	6,873	290	-	44,063
Disposals	-	(3,684)	(251)	-	-	(3,935)
Depreciation charge for the year	(1,060)	(6,709)	(8,210)	(119)	-	(16,098)
Transfer from/(to) investment property (Note 12)	-	-	-	-	-	-
At December 31, 2009, net of accumulated depreciation and impairment	54,661	39,160	13,743	560	56	108,180

(*) TL 3,731 (net) and TL 5,813 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2009 and 2008, respectively. There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2008						
Cost	44,860	63,091	32,608	2,798	56	143,413
Accumulated depreciation	(5,631)	(33,283)	(17,277)	(2,409)	-	(58,600)
Accumulated impairment	(663)	-	-	-	-	(663)
Net carrying amount	38,566	29,808	15,331	389	56	84,150
At December 31, 2009						
Cost	62,015	79,152	39,230	3,088	56	183,541
Accumulated depreciation	(6,691)	(39,992)	(25,487)	(2,528)	-	(74,698)
Accumulated impairment	(663)	-	-	-	-	(663)
Net carrying amount	54,661	39,160	13,743	560	56	108,180

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2009 and 2008 is as follows:

	2009	2008
Motor vehicles	58	59
Leasehold improvements	6,729	1,462
Furniture and office equipment	3,876	8,734
	10,663	10,255

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

15. Intangible assets, net

	Software
At January 1, 2008	1,591
Additions	2,331
Disposals	(10)
Amortization charge for the year	(1,065)
At December 31, 2008, net of accumulated amortization	2,847
Additions	6,577
Disposals	-
Amortization charge for the year	(1,168)
At December 31, 2009, net of accumulated amortization	8,256
At December 31, 2008	
Cost (gross carrying amount)	8,319
Accumulated amortization	(5,472)
Net carrying amount	2,847
At December 31, 2009	
Cost (gross carrying amount)	14,896
Accumulated amortization	(6,640)
Net carrying amount	8,256

16. Due to other financial institutions and banks

Original foreign currency	Amount in TL	
	2009	2008
US\$	383,681	817,421
Euro	-	3,533
Total	383,681	820,954

As of December 31, 2009 borrowings remaining maturities of which is less than 12 months amount to TL 378,385 (As of December 31, 2008 – TL 795,548).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

17. Current and profit / loss sharing investors' accounts

	2009	2008
Current accounts:		
Turkish lira	748,450	435,795
Foreign currency	552,542	436,794
	1,300,992	872,589
Profit/loss sharing investors' accounts:		
Turkish lira	2,297,791	1,674,442
Foreign currency	1,820,352	1,521,247
	4,118,143	3,195,689
Blocked accounts:		
Turkish lira	23,404	31,272
Foreign currency	70,831	1,364
	94,235	32,636
Total current accounts and profit/loss investors' accounts	5,513,370	4,100,914
Expense accrual on current accounts and profit/loss sharing investors' accounts	31,831	18,546
Total current accounts and profit/loss sharing investors' accounts	5,545,201	4,119,460

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	2009 (in TL)			2008 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	2,146,768	1,648,789	3,795,557	1,441,409	1,210,931	2,652,340
From 1 month to 3 months	443,977	442,940	886,917	402,438	342,651	745,089
From 3 months to 1 year	83,290	54,239	137,529	28,750	146,037	174,787
Over one year	395,610	297,757	693,367	268,912	259,786	528,698
	3,069,645	2,443,725	5,513,370	2,141,509	1,959,405	4,100,914

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

17. Current and profit / loss sharing investors' accounts (continued)

At December 31, 2009 and 2008, foreign currency current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2009		2008	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US\$	294,667,107	443,680	199,826,624	302,198
Euro	80,301,458	173,476	59,733,084	127,876
Other		6,217		8,084
		623,373		438,158
Profit/loss sharing investors' accounts:				
US\$	764,048,934	1,150,428	632,606,492	956,691
Euro	310,106,481	669,924	263,712,790	564,556
Other				-
		1,820,352		1,521,247
		2,443,725		1,959,405

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

18. Income taxes

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal years ending on December 31, 2009, and 2008 is 20%. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. Income taxes (continued)

Investment allowances with incentive certificates incurred prior to April 24, 2003, can be subject to 19.8% deductible if the Companies choose to forego the new deductions. Before the implementation of the new investment incentive application, effective January 1, 2006, all investment incentives could be carried forward indefinitely, however, as of January 1, 2006 the investment incentive application has been terminated. Unused qualifying capital investment amounts from periods prior to December 31, 2005 could be deducted from the corporate income tax base until the end of December 31, 2008. However, in this case corporate tax rate would be 30%. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 would be subject to investment incentives until the end of December 31, 2008. In 2008, the Bank decided to not utilize its investment incentive allowance. Therefore in 2008, corporate tax rate was 20%.

Constitutional Court abolished 2006, 2007, 2008 phrases included in the temporary article numbered 69 of the Income Tax Law related to investment allowances. Thereby, time limitation related to investment incentive removed. Supreme Court concluded that reasoned decision of cancellation related to investment incentive become effective when it is published in the Official Gazette. The reasoned decision became effective on January 8, 2010 in accordance with the Supreme Court's Principal 2006/95, decision numbered 2009/144 and Constitution's article numbered 153 which has been published in Trade Registry Gazette numbered 27456 on January 8, 2010. In this context, the right to use investment incentive amounting to TL 61,108 which was not used in 2008 has been transferred to 2009 and 2010 with an applicable withholding tax rate of 19.8%. However, the Bank's 2009 Corporate Tax Base is TL 174,508 and the budgeted net income before tax amount for 2010 is higher than the investment incentive amount. Due to the remaining part of Corporate Tax Base that exceeds the investment incentive is subject to 30% corporate tax rate, this case reveals disadvantage in Corporate Tax. Therefore, the amount of transferred investment incentive will not be used.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or classified under equity for five years in accordance with the New Corporate Tax Law.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2004 - 2008), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

	2009	2008
Current tax expense	34,902	32,215
Prepaid tax (-)	29,128	20,728
Income taxes payable	5,774	11,487
	2009	2008
Current tax expense	(34,902)	(32,215)
Deferred tax credit/(charge)	(1,847)	6,710
Total income tax (charge)/credit	(36,749)	(25,505)

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. 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 Bank's effective income tax rate for the years December 31, 2009 and 2008 is as follows:

	2009	2008
Profit before income tax from continuing operations	166,975	119,372
Gain/(loss) before tax from a discontinued operation	4,055	(2,599)
Profit before income tax	171,030	116,773
At Turkish statutory income tax rate of 20%	34,206	23,355
Effect of change in tax rate	-	(1,931)
Effect of income not subject to tax	(1,841)	(2,813)
Effect of expenditure not allowable for income tax purposes	4,521	7,834
Effect of restatement pursuant to IAS 29 and other permanent differences	(137)	(940)
Income tax charge	36,749	25,505

Deferred income tax as of December 31, 2009 and 2008 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2009	2008
Due from financing activities	10,642	6,221
Derivative accrual	-	2,351
Reserve for employee termination benefits	952	744
Provision for impairment in subsidiary	-	3,476
Deferred income	758	1,973
Bonus accrual of personnel	3,825	2,750
Effect of other temporary differences	377	272
Deferred tax assets	16,554	17,787
Restatement of property and equipment, intangible assets and other non-monetary items	2,525	2,474
Accounting for finance leases	542	717
Derivative accrual	738	-
Deferred tax liabilities	3,805	3,191
Deferred tax asset – net	12,749	14,596

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2009**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. Income taxes (continued)

Movement of net deferred tax asset is:

	2009	2008
Balance at the beginning of the year	14,596	7,886
Deferred tax (charge)/credit recognized in income statement	(1,847)	6,710
Balance at the end of the year	12,749	14,596

19. Other liabilities and provisions

	2009	2008
Personnel bonus accrual	19,127	13,750
Withholding tax and other tax payables	12,168	13,448
Payables to exporters and suppliers	7,908	3,522
Deferred revenue	3,330	10,310
Security premium for participation funds	2,692	2,093
Leasing payable	1,025	1,054
Deductions on resource utilization fund	576	621
Other (*)	2,596	1,316
Total other liabilities	49,422	46,114
Provisions		
Employee termination benefits	4,780	3,806
Other provisions	2,327	2,513
Total provisions	7,107	6,319
Total	56,529	52,433

(*) The Bank had a tax penalty, which is agreed with the Tax Administration and will be paid over a period of 18 months.

The movement in reserve for employee termination benefits is as follows:

	2009	2008
Balance at January 1	3,806	3,226
Utilized/paid	(829)	(534)
Arising during the year	1,715	1,067
Actuarial loss	88	47
Balance at the end of the year	4,780	3,806

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

19. Other liabilities and provisions (continued)

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2.3 and TL 2.2 at December 31, 2009 and 2008, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2009 and 2008, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The following actuarial assumptions were used in the calculation of the total liability:

	2009	2008
Discount rate (%)	11	12
Expected salary / ceiling increase rate (%)	4.8	5.4

20. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of forward transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

December 31, 2009								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	9,925	-	880,092	840,738	10,340	29,014	-	-
Currency swap sale	-	6,231	868,246	836,577	10,400	21,269	-	-
	9,925	6,231	1,748,338	1,677,315	20,740	50,283	-	-
December 31, 2008								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	13,933	-	848,870	782,813	61,996	4,061	-	-
Currency swap sale	-	25,664	856,582	790,558	63,533	2,491	-	-
	13,933	25,664	1,705,452	1,573,371	125,529	6,552	-	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

21. Share capital

	2009	2008
Number of ordinary shares , 1 TL, par value. Authorized, issued and outstanding.	500.00 million	500.00 million

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

	2009		2008	
	Number	TL	Number	TL
At January 1	500,000,000	500,000	260,000,000	260,000
Shares issued in				
- bonus shares from retained earnings	-	-	40,000,000	40,000
- cash	-	-	200,000,000	200,000
At year end	500,000,000	500,000	500,000,000	500,000

The Bank has increased its share capital at May 30, 2008. The share capital increase was funded from the retained earnings amounting to TL 40,000 and by cash payment of shareholders amounting to TL 200,000.

The Bank does not have any classes of shares other than ordinary shares. There is no differentiation in the rights, preferences and restrictions of the ordinary shares.

As of December 31, 2009 and 2008, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2009		2008	
	Amount	%	Amount	%
Kuwait Finance House	311,173	62.2	311,173	62.2
Directorate of Vakıf Foundations, Turkey	93,596	18.7	93,596	18.7
The Public Institution for Social Security, Kuwait	45,000	9.0	45,000	9.0
Islamic Development Bank	45,000	9.0	45,000	9.0
Other	5,231	1.1	5,231	1.1
Total share capital	500,000		500,000	

22. Legal reserves, retained earnings, dividends paid and proposed

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

22. Legal reserves, retained earnings, dividends paid and proposed (continued)

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 5,500 (2008 - TL 6,990).

	2009	2008
Ordinary shares		
Amount	5,500	6,990
TL (full) per share	0.011	0.029

23. Earnings per share

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

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.

There is no dilution of shares as of December 31, 2009 and 2008.

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

	2009	2008
Net profit attributable to continuing operations of the Bank for basic earnings per share	130,226	93,867
Net profit/(loss) attributable to discontinued operations for basic earnings per share	4,055	(2,599)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	134,281	91,268
Weighted average number of ordinary shares for basic earnings per share (thousands)	500,000	417,808
Basic earnings per share (expressed in full TL per share)	0.269	0.218
Basic earnings per share from continuing operations	0.260	0.224

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2008 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2008 - 18.7%), 9.0% (December 31, 2008 - 9.0%) and 9.0% (December 31, 2008 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2009 and 2008 and transactions have been entered into with related parties during the years ended:

i) Due from financial institutions:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	5,343	28	748	4
	US\$	122,169	184	10,272,815	15,531
	BHD	19,271	77	49,101	197
			289		15,732

ii) Due to other financial institutions:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House, Kuwait (1)	US\$	-	-	43,804,833	65,811
Kuwait Finance House (*)	US\$	-	-	13,452,282	20,345
			-		86,156

(*) The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures (continued)

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

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	EUR	-	-	-	-
Kuwait Finance House (1)	US\$	26,210,417	39,465	1,350,170	2,042
Kuwait Finance House (1)	TL	-	2,632	-	-
Kuwait Finance House (1)	BHD	-	-	-	-
Islamic Development Bank (1)	US\$	23,535,012	35,437	5,146	8
Directorate of Vakıf Foundations, Turkey (1)	TL	-	3	-	2
Neova Sigorta AS (*)	US\$	7,663,881	11,538	-	-
Other	TL	-	12,171	-	-
		101,246		2,052	

(*) determined as related party as the Company is under the common control of the ultimate parent.

iv) Profit shares distributed:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	45,054	68	48,304	74
Kuwait Finance House (1)	EUR	-	-	-	-
Directorate of Vakıf Foundations, Turkey (1)	TL	-	-	-	-
Neova Sigorta AS (*)	US\$	535,299	806	-	-
Other	TL	-	612	-	-
		1,486		74	

(*) determined as related party as the Company is under the common control of the ultimate parent.

v) Non cash credits issued:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	74,719	111	489,087	740
Other	TL	-	10,438	-	-
		10,549		740	

(1) Shareholders.

As of December 31, 2009 no provisions have been recognized in respect of loans given to related parties (December 31, 2008 - nil).

Loans amounting to TL 61 have been issued to directors during the year ended December 31, 2009 (December 31, 2008 – TL 84).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures (continued)

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 5,678 during the year ended December 31, 2009 (December 31, 2008 – TL 5,257). As of December 31, 2009 the key management personnel did not receive any termination benefits (December 31, 2008 - TL nil).

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman and Audit Committee Member
Abdullah TIVNIKLİ	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Kenan KARADENİZ	B.O.D. Member
Shaheen H.A. AL GHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz KH E AL SALEH	B.O.D. Member

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

25. Fees and commission income and expense

	2009	2008
Fees and commission income		
Commissions on loans	47,652	54,052
Commission income from commitments	45,120	32,011
Communication expense charges	20,102	18,719
POS commission income	13,399	12,332
Credit card fees and commissions	12,658	19,793
Import letter of credit commissions	5,543	4,019
Commissions from checks and notes	2,460	2,689
Income from agency activities	511	3,055
Other	9,991	4,345
Total	157,436	151,015
	2009	2008
Fees and commission expense		
Credit card machine and fees paid for credit cards	22,265	23,469
Brokerage fees on borrowings	3,611	833
ATM charges	25	162
Other	2,651	862
Total	28,552	25,326

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2009**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

26. Salaries and employee benefits

	2009	2008
Staff costs		
Wages and salaries	81,513	66,291
Bonus	19,000	13,750
Other fringe benefits	12,987	10,690
Social security premiums	12,273	11,722
Health expenses	4,053	4,079
Provision for employee termination benefits	886	1,067
Other	3,585	3,136
Total	134,297	110,735

27. Other expenses

	2009	2008
Impairment on completed projects	-	-
Impairment on property and equipment	-	-
Impairment on investment property (Note 12)	1,259	28
Impairment on asset held for sale (Note 13)	10	-
Impairment charges	1,269	28
Insurance fund premium expense	9,769	7,654
Communication	7,144	6,388
Repair and maintenance expenses	6,916	4,995
Advertising expenses	6,222	5,154
Professional fees	5,904	4,302
Non taxable income	4,049	3,167
Cleaning expense	3,753	2,752
Loss from sale of assets	3,707	2,982
Energy expenses	3,480	2,566
Travel and representation expenses	2,945	2,655
Insurance and subscription expenses	1,472	1,395
Stationery and publishing expenses	1,358	1,173
Insurance expenses	395	1,811
Computer usage expenses	299	931
Other	4,444	510
Other expenses	61,857	48,435
Total	63,126	48,463

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

28. Commitments and contingencies

In the normal course of its banking activities, the Bank 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.

The following is a brief summary of significant contingencies and commitments as of December 31, 2009 and 2008:

	2009	2008
Letters of guarantee issued by the Bank	2,867,436	2,799,023
Letters of credit	426,991	363,745
Commitments	1,924,469	655,231
Acceptance credits	30,567	25,757
Other guarantees	5,637	4,775
Total	5,255,100	3,848,531

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

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

The Bank has TL 46,040, USD 5,781,286 (full), Euro 1,320,313 (full); total TL 57,595 (converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2009. The allocation of these obligations within lease periods as of December 31, 2009 and 2008 is as follows:

	2009	2008
Within one year	17,368	14,446
After one year but not more than five years	35,933	34,414
More than five years	4,294	328
	57,595	49,188

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 1,042 and TL 9,719 as of December 31, 2009 and 2008 respectively. As of December 31, 2009, the amounts of the checks and s are TL 965,756 (December 31, 2008 – TL 858,409) and TL 197,233 (December 31, 2008 – TL 147,863) respectively.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management

Introduction

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

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

Organization of the risk management function

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

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

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

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

Internal systems and risk management policies

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Risk management and treasury middle office department

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks.
- Business Continuity Plan, Process and Procedures

Board of inspectors and internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure	2009	2008
Cash and balances with Central Bank (excluding cash on hand)	401,613	398,433
Deposit with banks and financial institutions	903,319	938,608
Due from financing activities	4,586,786	3,879,553
Minimum financial lease payments receivable	53,512	113,475
Financial assets-held to maturity	7,529	7,583
Other assets	180,637	23,246
Derivative financial instruments	9,925	13,933
Total	6,143,321	5,374,831
Contingent liabilities	3,294,427	3,162,768
Other guarantees	36,204	30,532
Commitments	1,924,469	655,231
Total	5,255,100	3,848,531
Total credit risk exposure	11,398,421	9,223,362

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2009 was TL 89,956 (December 31, 2008 - TL 93,514) and non cash credit exposure as of December 31, 2009 was TL 144,788 (December 31, 2008 - TL 145,423) before taking account of collateral or other credit enhancements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2009	2008
	Gross exposure	Gross exposure
Construction and materials	2,598,052	2,000,939
Financial services	3,302,596	1,590,039
Manufacturing	747,025	1,176,063
General retailers	836,214	1,033,007
Mining operations	535,504	619,587
Electricity	229,971	224,542
Telecommunications	215,597	191,891
Health care and social services	265,292	198,183
Forestry	70,614	142,017
Food and beverages	51,505	52,814
Real estate	28,455	19,603
Other	2,517,596	1,974,677
Total	11,398,421	9,223,362

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for due from banks, central bank and reserve deposit balances, financing and leasing receivables, letters of credit, letters of guarantee and other guarantees, based on the Group's credit rating system. The Group classifies the Central Bank of Turkey as high grade. Banks and financial institutions located in Turkey, European Union, United States of America and other OECD countries are graded as standard. Banks, which are located in other countries, are graded as sub-standard by the Bank. Customers of financing and leasing receivables, letters of credit, letters of guarantee and other guarantees are graded in accordance with their transaction volume, payment performance and income generation of the Group from the customer.

2009	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	401,614	885,242	18,077	-	-	1,304,933
Financing and leasing receivables	-	-	427,187	286,967	3,926,144	4,640,298
Corporate lending	-	-	427,187	141,111	1,911,101	2,479,399
Small business lending	-	-	-	58,996	427,311	486,307
Consumer lending	-	-	-	68,110	1,499,573	1,567,683
Credit cards	-	-	-	18,750	88,159	106,909
Contingent liabilities and other guarantees	-	33,105	839,736	-	2,457,790	3,330,631
Commitments	-	1,265,074	-	-	659,395	1,924,469
Total	401,614	2,183,421	1,285,000	286,967	7,043,329	11,200,331

2008	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	398,433	881,383	57,225	-	-	1,337,041
Financing and leasing receivables	-	103,990	289,920	511,138	3,087,979	3,993,027
Corporate lending	-	103,990	289,920	298,690	1,801,102	2,493,702
Small business lending	-	-	-	25,252	450,754	476,006
Consumer lending	-	-	-	153,926	730,033	883,959
Credit cards	-	-	-	33,270	106,091	139,361
Contingent liabilities and other guarantees	-	466,007	393,585	-	2,333,708	3,193,300
Commitments	-	209,039	-	-	446,192	655,231
Total	398,433	1,660,419	740,730	511,138	5,867,879	9,178,599

(*) The Group's rating approach is applicable for financial assets with outstanding risk above TL 3,000.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

2009	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	4,823	60,698	4,009	-	69,530
Consumer lending	1,567	28,174	14,851	-	44,592
Small business lending	3,916	26,916	6,868	-	37,700
Credit cards	198	4,080	4,463	-	8,741
Total	10,504	119,868	30,191	-	160,563

2008	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	137,554	11,711	38,338	-	187,603
Consumer lending	64,423	51,373	11,720	-	127,516
Small business lending	40,074	21,423	7,262	-	68,759
Credit cards	6,801	8,928	3,798	-	19,527
Total	248,852	93,435	61,118	-	403,405

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2009 and 2008 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2009	2008
Due from financing activities:		
Corporate lending	384,742	2,768
Small business lending	-	-
Total renegotiated financial assets	384,742	2,768

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Analysis of financial liabilities by remaining contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2009						
Due to other financial institutions and banks	-	79,952	303,216	5,654	-	388,822
Derivative financial instruments(*)	-	846,977	21,269	-	-	868,246
Current accounts	1,300,992	-	-	-	-	1,300,992
Profit and loss sharing accounts	-	3,340,726	437,210	466,273	-	4,244,209
Other financial liabilities	-	1	2	-	-	3
Total undiscounted financial liabilities	1,300,992	4,267,656	761,697	471,927	-	6,802,272
As at December 31, 2008						
Due to other financial institutions and banks	-	501,980	310,105	25,406	-	837,491
Derivative financial instruments	-	854,091	2,491	-	-	856,582
Current accounts	877,146	-	-	-	-	877,146
Profit and loss sharing accounts	-	2,942,312	298,605	1,397	-	3,242,314
Other financial liabilities	-	-	-	4	-	4
Total undiscounted financial liabilities	877,146	4,298,383	611,201	26,807	-	5,813,537

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

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2009						
Contingent liabilities and other guarantees	629,969	559,693	863,683	1,006,593	270,693	3,330,631
Commitments	1,924,469	-	-	-	-	1,924,469
Total	2,554,438	559,693	863,683	1,006,593	270,693	5,255,100
December 31, 2008						
Contingent liabilities and other guarantees	1,880,747	309,575	292,087	335,802	375,089	3,193,300
Commitments	655,231	-	-	-	-	655,231
Total	2,535,978	309,575	292,087	335,802	375,089	3,848,531

Market risk

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Market risk – Non-trading

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

Precious metal	Increase/ decrease in metal price in %	December 31, 2009			December 31, 2008		
		Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	
Gold	+10	23,357	-	+10	9,976	-	
Gold	-10	(23,35)	-	-10	(9,976)	-	

Interest risk

The Group operates in non-interest banking sector. The only interest risk sensitive financial asset of the Group is Sukuk, which is classified as held to maturity in the financial statements (Note 6). The Group assesses the interest risk arising from this asset as insignificant to the financial statements.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	Increase/ decrease in currency rate in %	December 31, 2009			December 31, 2008		
		Effect on profit before tax	Effect on equity	Increase/ decrease in currency rate in %	Effect on profit before tax	Effect on equity	
USD and Other	+10	(4,420)	-	+10	(93)	-	
USD and Other	-10	4,420	-	-10	93	-	
EUR	+10	1,141	-	+10	5,921	-	
EUR	-10	(1,141)	-	-10	(5,921)	-	

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

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

December 31, 2009

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	8,685	14,152	777	215,476	239,090
Deposits with other banks and financial institutions	374,739	371,209	15,096	142,274	903,318
Reserve deposits at the Central Bank	-	216,694	-	1,995	218,689
Financial assets – available-for-sale	-	714	-	3,806	4,520
Financial assets – held for trading	-	-	-	27	27
Financial assets – held to maturity	-	7,529	-	-	7,529
Investment in an associate	-	-	-	12,315	12,315
Due from financing activities, net	493,378	1,465,610	-	2,627,798	4,586,786
Minimum finance lease payments receivable, net	10,860	14,309	-	28,343	53,512
Derivative financial instruments	245	1,165	-	8,515	9,925
Other assets (*)	-	-	409,584	180,637	590,221
Construction projects, net	-	-	-	3,025	3,025
Investment properties, net	-	-	-	47,207	47,207
Assets held for sale and disposal of group, net	-	-	-	9,547	9,547
Property and equipment, net	-	4	-	108,176	108,180
Intangible assets, net	-	-	-	8,256	8,256
Deferred tax assets	-	-	-	12,750	12,750
Total assets	887,907	2,091,386	425,457	3,410,147	6,814,897
Due to other financial institutions and banks	-	383,681	-	-	383,681
Current and profit / loss sharing investors' accounts	844,982	1,342,250	183,610	3,174,359	5,545,201
Other liabilities	4,159	21,588	246	23,429	49,422
Provisions	-	-	-	7,107	7,107
Income taxes payable	-	-	-	5,774	5,774
Derivative financial instruments	134	5,225	-	872	6,231
Liabilities directly associated with assets classified as held for sale, net	-	-	-	-	-
Equity	-	-	-	817,481	817,481
Total liabilities and equity	849,275	1,752,744	183,856	4,029,022	6,814,897
Net Balance Sheet Position	38,632	338,642	241,601	(618,875)	-
Net Off-Balance Sheet Position	(27,220)	(388,809)	(235,633)	651,662	-

(*) Other column of "Other Assets" mainly consists of gold transactions.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

December 31, 2008

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	10,185	23,510	206	215,087	248,988
Deposits with other banks and financial institutions	263,911	637,794	9,870	27,033	938,608
Reserve deposits at the Central Bank	-	209,488	-	3,933	213,421
Financial assets – available-for-sale	-	577	-	812	1,389
Financial assets – held for trading	-	-	-	64	64
Financial assets – held to maturity	-	7,583	-	-	7,583
Due from financing activities, net	505,240	1,587,576	-	1,786,737	3,879,553
Minimum finance lease payments receivable, net	52,675	39,758	-	21,042	113,475
Derivative financial instruments	207	3,828	-	9,898	13,933
Other assets (*)	-	772	99,762	22,474	123,008
Construction projects, net	-	-	-	3,087	3,087
Investment properties, net	-	-	-	67,586	67,586
Assets held for sale and disposal of group, net	-	-	-	6,410	6,410
Property and equipment, net	-	12	-	84,138	84,150
Intangible assets, net	-	-	-	2,847	2,847
Deferred tax assets	-	-	-	14,596	14,596
Total assets	832,218	2,510,898	109,838	2,265,744	5,718,698
Due to other financial institutions and banks	3,533	817,421	-	-	820,954
Current and profit / loss sharing investors' accounts	694,329	1,284,705	10,024	2,130,402	4,119,460
Other liabilities	750	8,030	552	36,782	46,114
Provisions	-	-	-	6,319	6,319
Income taxes payable	-	-	-	11,487	11,487
Derivative financial instruments	-	2,651	-	23,013	25,664
Liabilities directly associated with assets classified as held for sale, net	-	-	-	-	-
Equity	-	-	-	688,700	688,700
Total liabilities and equity	698,612	2,112,807	10,576	2,896,703	5,718,698
Net Balance Sheet Position	133,606	398,091	99,262	(630,958)	-
Net Off-Balance Sheet Position	(74,392)	(422,637)	(73,785)	571,947	-

Pricing risk

The Group utilizes funds with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2009 and 2008, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	2009	2008
Tier 1 capital	785,364	686,902
Tier 2 capital	32,100	24,959
Deductions from capital	(21,715)	-
Total capital	795,749	711,861
Risk weighted assets amount subject to market and operational risk	5,465,599	4,555,841

	Actual	Required	Actual	Required
Tier 1 capital ratio	14.37%	-	15.08%	-
Total capital ratio	14.56%	12%	15.63%	12%

30. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities 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 December 31, 2009, the fair value of financing and leasing receivables has been estimated as TL 4,646,986 (December 31, 2008 – TL 4,175,316) whereas their carrying amount is TL 4,665,232 (December 31, 2008 – TL 3,993,028).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

30. Fair value of financial instruments (continued)

Fair value of borrowings at amortized cost is estimated as TL 384,891 (December 31, 2008 – TL 821,732), whereas their carrying amount is TL 383,681 (December 31, 2008 – TL 820,954). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term. Fair value of held to maturity investment (Sukuk Bond) is estimated as TL 7,541 (December 31, 2008 – TL 6,994), whereas its carrying amount is TL 7,529 (December 31, 2008 – 7,583).

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.

31. Subsequent events

- a. The Board of Directors' meeting held on February 9, 2010, it has been decided to establish a new investment fund called Type B Gold Exchange Investment Fund and authorize Head Office for dealing with mandatory applications and other procedures.
- b. At the Ordinary General meeting held on April 14, 2010, it has been decided to increase the Bank's capital from TL 500,000 to TL 550,000 and to propose to the shareholders for the transfer of TL 50,000 from the current year profit to the capital without being distributed in cash in accordance with Turkish Commercial Code at the first ordinary general assembly.
- c. At the Ordinary General Meeting dated April 14, 2010 it has been decided to distribute TL 9,623 and TL 652 as dividend to its shareholders and BOD members, respectively.