

**Kuveyt Türk Katılım Bankası
Anonim Şirketi**

**Consolidated financial statements together with
independent auditors' report as at December 31,
2011**

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**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, 2011**

We have audited the accompanying consolidated 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, 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

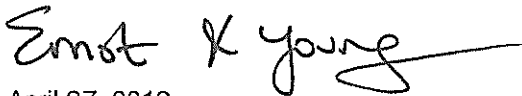
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 the Group as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 27, 2012
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**Consolidated statement of financial position
As at December 31, 2011
(Currency – In thousands of Turkish Lira - TL)**

	Notes	December 31, 2011	December 31, 2010
Assets			
Cash and balances with the Central Bank	4	521,315	415,764
Balances with other banks and financial institutions	4	853,973	933,913
Reserve deposits at the Central Bank	5	924,366	329,844
Financial assets – held for trading	6	87,247	32,738
<i>Derivative financial instruments</i>	19	74,865	28,480
<i>Share Certificates</i>		27	27
<i>Gold Fund</i>		12,355	4,231
Financial assets – available-for-sale	6	6,515	4,520
Due from financing activities, net	7	10,116,153	6,868,937
Minimum finance lease payments receivable, net	8	133,964	87,473
Precious Metals		1,394,280	507,311
Other assets	9	193,550	165,004
Construction projects, net	10	39,633	24,538
Investment properties, net	11	31,127	55,975
Property and equipment, net	13	142,475	115,675
Intangible assets, net	14	26,534	13,158
Deferred tax assets	17	38,439	13,400
		14,509,571	9,568,250
Assets and a disposal group held for sale	12	23,962	26,015
Total assets		14,533,533	9,594,265
Liabilities and equity			
Due to other financial institutions and banks	15	1,524,923	482,972
Sukuk securities issued	15	867,927	156,433
Subordinated Loans	15	386,681	-
Current and profit / loss sharing investors' accounts	16	10,030,822	7,479,284
Derivative financial instruments	19	38,265	14,300
Other liabilities	18	183,769	171,938
Provisions	18	25,747	7,909
Income taxes payable	17	3,683	5,663
		13,061,817	8,318,499
Liabilities directly associated with assets classified as held for sale	12	-	-
Total liabilities		13,061,817	8,318,499
Share capital	20	950,000	850,000
Share premium	20	23,250	23,250
Legal reserves and retained earnings	21	516,379	402,208
Currency translation differences		4,676	308
Other reserve	21	(22,589)	-
Total equity attributable to equity holders of the parent		1,471,716	1,275,766
Total liabilities and equity		14,533,533	9,594,265

The policies and explanatory notes on pages 6 through 63 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, 2011 (Currency – In thousands of Turkish Lira - TL)

	Notes	2011	2010
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		453,972	362,672
Profit on originated loans from current accounts and equity		400,412	249,196
Profit on deposits with other banks and financial institutions		20,570	22,727
Profit on finance leases		7,199	4,656
Total income from financing activities		882,153	639,251
Profit shares distributed to participation accounts		(379,500)	(303,553)
Profit shares distributed to other banks and financial institutions		(57,867)	(14,543)
Net financing income		444,786	321,155
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	(82,554)	(62,431)
Net financing income after provision for impairment in due from financing activities and lease receivables		362,232	258,724
Foreign exchange gain, net		99,150	40,115
Net financing income after net foreign exchange gain / (loss)		461,382	298,839
Fees and commission income	24	208,881	164,884
Income/(loss) from construction projects, net		1,164	1,865
Net trading income		643	23,852
Other income		25,671	44,857
Share of profit / (loss) of an associate		-	(489)
Total other operating income		236,359	234,969
Fees and commission expense	24	(36,068)	(24,833)
Staff costs	25	(209,387)	(162,903)
Depreciation and amortization expense		(26,664)	(21,681)
Withholdings and other taxes		(19,812)	(11,366)
Rent expense		(30,360)	(23,777)
Other expenses	26	(97,799)	(79,420)
Total other operating expense		(420,090)	(323,980)
Income before taxation		277,651	209,828
Current tax charge	17	(74,770)	(42,227)
Deferred tax (charge)/credit	17	25,039	651
Net income for the year from continuing operations		227,920	168,252
Net income/(loss) after tax for the year from a discontinued operation	12	-	-
Net income for the year		227,920	168,252
Other comprehensive income for the year		4,368	308
Exchange differences on translation of the foreign subsidiary		4,368	308
Total comprehensive income for the year		232,288	168,560
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	22	0.240	0.217
Basic and diluted 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	22	0.240	0.217

The policies and explanatory notes on pages 6 through 63 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, 2011
(Currency – In thousands of Turkish Lira - TL)

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Other reserve	Currency translation differences	Total
Balances at January 1, 2010		500,000	23,250	18,066	276,165	-	-	817,481
Share capital increase		350,000	-	-	(50,000)	-	-	300,000
Transfer from retained earnings to legal reserves		-	-	7,498	(7,498)	-	-	-
Dividends paid		-	-	-	(10,275)	-	-	(10,275)
Total comprehensive income for the year		-	-	-	168,252	308	-	168,560
Balances at December 31, 2010		850,000	23,250	25,564	376,644	-	308	1,275,766
Share capital increase		100,000	-	-	(100,000)	-	-	-
Transfer from retained earnings to legal reserves		-	-	9,357	(9,357)	-	-	-
Dividends paid		-	-	-	(13,749)	-	-	(13,749)
Total comprehensive income for the year		-	-	-	227,920	(22,589)	4,368	232,288
Other reserve		-	-	-	-	-	-	(22,589)
Balances at December 31, 2011		950,000	23,250	34,921	481,458	(22,589)	4,676	1,471,716

The policies and explanatory notes on pages 6 through 63 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, 2011
(Currency – In thousands of Turkish Lira - TL)

	Notes	2011	2010
Cash flows from operating activities:			
Income from continuing operations before taxation		277,651	209,828
Depreciation and amortization	11, 13, 14	26,664	21,681
Provision for employee termination benefits and personnel bonus accrual		6,065	10,246
Provision for impairment in due from financing activities and lease receivables	7, 8	82,554	62,431
Provision for impairment in intangible assets, property and equipment and investment properties	11, 13, 14	-	175
Income accrual of funds invested		(334,619)	(2,325)
Expense accrual of participation accounts	16	(1,035)	9,912
Income accrual from deposits at the Central Bank of Turkey		-	1,638
Reversal of impairment in construction projects and other assets		(6,239)	-
Income taxes paid		(76,750)	(42,338)
Expense accrual of funds borrowed		121,915	2,530
Net change in derivative financial instruments	19	(22,420)	(10,486)
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		(16,668)	(10,480)
Operating income before changes in operating assets and liabilities		57,118	252,812
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(594,522)	(112,793)
Due from financing activities	7	(3,006,878)	(2,352,090)
Minimum finance lease payments receivables		(48,354)	(35,210)
Other assets and construction projects		(51,227)	15,221
Current accounts and profit/loss sharing investors' accounts	16	2,552,573	1,924,171
Other liabilities		14,140	115,704
Payment for employee termination benefits	18	(1,588)	(1,080)
Precious metals		(886,968)	(97,457)
Net cash used in operating activities		(1,965,706)	(290,722)
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(994)	(4,231)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	(1,000)	7,529
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(134,155)	(59,275)
Proceeds from sale of property and equipment, intangible assets and investment properties		105,759	28,419
Additions to assets and liabilities held for sale	12	(15,393)	(16,278)
Proceeds from sale of asset and liabilities held for sale	12	22,857	12,092
(Purchase) / sale of investment in associate / subsidiary		-	(15,999)
Net cash used in investing activities		(22,926)	(47,743)
Cash flows from financing activities:			
Dividends paid	21	(13,749)	(10,275)
Increase in due to financial institutions and banks		1,405,151	103,801
Sukuk securities issued		613,060	154,600
Increase in share capital	20	-	300,000
Net cash provided by financing activities		2,004,462	548,126
Net increase in cash and cash equivalents		15,830	209,661
Net foreign exchange difference on cash and cash equivalents		9,781	(2,393)
Cash and cash equivalents at the beginning of the year	4	1,349,677	1,142,409
Cash and cash equivalents at the end of the year	4	1,375,288	1,349,677
Profit share received		886,420	636,926
Profit share paid		453,608	314,016

The policies and explanatory notes on pages 6 through 63 form an integral part of the consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

(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 25, 2012. 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, 2011, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 100% shareholding was incorporated in June 1996 in Turkey. 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.

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

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

The Bank's other subsidiary, KT Sukuk Varlık Kiralama A.Ş. has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities amounting to USD 350.000.000.

The Bank's other subsidiary, 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

1. Corporate information (continued)

The Bank has bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank has bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Afterwards the Bank has transferred 8% of the joint venture shares, amounting to TL 7,229, to Körfez in exchange of release of its debt to Körfez İnşaat İş Ortaklığı amounting to TL 6,701 and for a cash consideration amounting to TL 528. The Bank has transferred the remaining 17% equity stake in Körfez İnşaat İş Ortaklığı to Körfez on September 23, 2011 for an amount of TL 15,361.

2. Summary of significant accounting policies

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.

The Bank and its Turkish 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. Dubai Limited maintains its books of account in accordance with the laws and regulations in force in the country in which it is registered.

Changes in accounting policies

New and amended standards and interpretations:

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2011 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2011. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2011 are as follows:

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction— Prepayments of a Minimum Funding Requirement (Amended)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. This interpretation does not apply when the creditor is acting in the capacity of a shareholder, in common control transactions or when the issue of equity shares was part of the original terms of the liability. The adoption of the interpretation did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation - Classifications on Rights Issues (Amended)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IAS 24 Related Party Disclosures (Revised)

Amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, the revised standard introduces a partial exemption of general disclosure requirements for transactions with government-related entities. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies and disclosures, but no impact on the financial position or performance of the Group. There are separate transitional provisions for each standard. The amendments that are effective as at 1 January 2011 are as follows:

IFRS 3 Business Combinations

- i) Transition requirements for contingent consideration from a business combination that occurred before the effective date of revised IFRS

This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

- ii) Measurement of non-controlling interests

This improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

iii) Unreplaced or voluntarily replaced share-based payment awards

This improvement requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration paid and post combination expenses.

IFRS 7 Financial Instruments: Disclosures

This improvement gives clarifications of disclosures required by IFRS 7 and emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Among others, the improvement remove the disclosure requirement of the collateral held as security and other credit enhancements and estimate of their fair value for financial assets that are past due but not impaired and that are individually impaired; and instead include a disclosure requirement of financial effect of collateral held as security and other credit enhancements for all financial assets.

IAS 1 Presentation of Financial Statements

This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements

This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 "The Effect of Changes in Foreign Exchange Rates", IAS "28 Investments in Associates" and IAS 31 "Interests in Joint Ventures" apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.

IAS 34 Interim Financial Reporting

This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements on i) the circumstances likely to affect fair values of financial instruments and their classification, ii) transfers of financial instruments between different levels of the fair value hierarchy, iii) changes in classification of financial assets, and iv) changes in contingent liabilities and assets.

IFRIC 13 Customer Loyalty Programmes

This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

2. Summary of significant accounting policies (continued)

IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments are effective for annual periods beginning on or after 1 July 2012, but earlier application is permitted. The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The amendment affects presentation only and will have no impact on the financial position or performance of the Group.

IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)

The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted. IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. These amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The Group does not expect that this amendment will have significant impact on the financial position or performance of the Group.

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amended standard on the financial position or performance of the Group.

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. This standard has not yet been endorsed by the EU. This amendment will not have any impact on the financial position or performance of the Group.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to IFRS 11 and IFRS 12, the IASB also amended IAS 28, which has been renamed IAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to IFRS 11. This standard has not yet been endorsed by the EU. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This standard has not yet been endorsed by the EU. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014. The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amended)

The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. This amendment has not yet been endorsed by the EU. The amendment is effective for annual periods beginning on or after 1 July 2011. Comparative disclosures are not required. The amendment affects disclosures only and will have no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amended)

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. This standard has not yet been endorsed by the EU. The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard has not yet been endorsed by the EU. The Group does not expect that the new standard will have an impact on the financial position or performance of the Group.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard has not yet been endorsed by the EU. The Group does not expect that this standard will have a significant impact on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard has not yet been endorsed by the EU. The Group does not expect that this standard will have a significant impact on the financial position or performance of the Group.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and will be adopted prospectively. Early application is permitted. The new disclosures are only required for periods beginning after IFRS 13 is adopted — that is, comparative disclosures for prior periods are not required. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

Reclassifications

Lands located in Kartal and Kilyos which are owned by Körfez amounting to TL 21,371 as of December 31, 2010 which were classified as property and equipment in the statement of financial position as of December 31, 2010 have been classified as construction projects to be consistent with the current period presentation.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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 are discussed below:

Employee benefits: The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 20.

Impairment of financial assets: 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.

Going concern: The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Deferred taxes: 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.

Fair value of financial instruments: 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.

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, 2011 and 2010 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, 2011

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

2. Summary of significant accounting policies (continued)

Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2011 and 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2011 and 2010, 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, 2011	December 31, 2010
"Körfez"	Turkey	100%	100%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Dubai Limited"	Turkey	100%	100%
"Kuveyt Turk Sukuk Ltd. (SPV)"	United Kingdom	-	-
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	100%	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

(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, 2010	1.54	2.04
December 31, 2011	1.91	2.46

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 1.6709 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, 2011

(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. Land is not depreciated.

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, 2011

(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, 2011

(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” 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. Fair value of forward and swap contracts are determined based on the comparison of the original forward rate calculated by market interest rates of the related currency for the remaining maturity. Each derivative transaction is carried as asset when the fair value is positive and as liability when the fair value is negative.

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, 2011

(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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In business combinations from 1 January 2010, if the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Furthermore any acquisition costs incurred are expensed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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 Group 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 Group.

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.

2. Summary of significant accounting policies (continued)

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.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

2. Summary of significant accounting policies (continued)

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 2011 or 2010.

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, 2011

(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, 2011 and 2010, respectively.

For the year ended December 31, 2011	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	226,962	532,392	9,277	-	768,631
Intersegment (*)	220,841	(153,025)	(67,816)	-	-
Total operating income	447,803	379,367	(58,539)	-	768,631
Credit loss expense	(27,741)	(54,639)	(173)	-	(82,553)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	420,062	324,728	(58,712)	-	686,078
Results					
Net profit share income/(expense)	104,354	372,204	(31,772)	-	444,786
Net fees and commission income	70,388	108,747	(6,321)	-	172,814
Net trading income	1,195	7,289	(7,841)	-	643
Segment profit/(loss)	175,937	488,240	(45,934)	(340,592)	277,651
Income tax expense	-	-	-	(49,731)	(49,731)
Net profit for the year	175,937	488,240	(45,934)	(390,323)	227,920
Asset and liabilities as of December 31, 2011					
Assets					
Capital expenditures					
Property and equipment	-	-	-	106,062	106,062
Other intangible assets	-	-	-	17,923	17,923
Total assets	3,452,310	6,939,321	3,767,139	374,763	14,533,533
Total liabilities	7,076,224	2,842,103	2,144,014	999,476	13,061,817

(*) 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.

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Notes to consolidated financial statements (continued)

December 31, 2011

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

3. Segment reporting (continued)

For the year ended December 31, 2010	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	134,097	385,618	51,691	-	571,406
Intersegment	140,191	(131,567)	(8,624)	-	-
Total operating income	274,288	254,051	43,067	-	571,406
Credit loss expense	(25,795)	(36,636)	-	-	(62,431)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	248,493	217,415	43,067	-	508,975
Results					
Net profit share income/(expense)	185,054	137,141	(1,040)	-	321,155
Net fees and commission income	52,875	88,630	(1,454)	-	140,051
Net trading income	315	2,146	21,391	-	23,852
Segment profit/(loss)	238,244	227,917	18,897	(275,230)	209,828
Income tax expense	-	-	-	(41,576)	-
Net profit for the year	238,244	227,917	18,897	(316,806)	168,252
Asset and liabilities as of December 31, 2010					
Assets					
Capital expenditures	-	-	-	49,488	49,488
Property and equipment	-	-	-	7,722	7,722
Other intangible assets	-	-	-	-	-
Total assets	2,325,389	4,729,899	2,206,488	332,489	9,594,265
Total liabilities	5,026,332	2,355,141	653,704	283,322	8,318,499

4. Cash and balances with banks

	2011	2010
Cash on hand	171,631	121,619
Balances with the Central Bank	349,684	294,145
Cash and balances with the Central Bank	521,315	415,764
Balances with foreign banks	456,839	552,554
Balances with domestic banks	363,360	376,266
Current accounts in participation banks	33,774	5,093
Balances with other banks and financial institutions	853,973	933,913
Cash and cash equivalents	1,375,288	1,349,677

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

4. Cash and balances with banks (continued)

As of December 31, 2011 and 2010, “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:

	2011				2010			
	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	-	299,872	-	1.38%	302,531	150,488	6.90%	0.63%
Total	-	299,872			302,531	150,488		

5. Reserve deposits at the central bank of Turkey

	2011				2010	
	Foreign currency (full)		TL	Foreign currency (full)	TL	
US\$	459,291,372		875,639	213,122,227	329,487	
TL	-		-	-	357	
XAU	510,282		48,727			
			924,366		329,844	

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. The required reserve rates are 11% up to 3-month maturity, 8% up to 6-month maturity, 6% up to 1-year maturity and 5% with 1-year or longer maturity in Turkish Lira and 11% up to 1-year maturity and 9% with 1-year or longer maturity in foreign currency.

6. Financial assets

Available-for-sale

	2011	2010
<u>At cost</u>		
Unlisted shares (*)	6,515	4,520
Total available-for-sale financial assets	6,515	4,520

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

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Notes to consolidated financial statements (continued)

December 31, 2011

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6. Financial assets (continued)

	Nature of business	2011		2010	
		%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	8.99	714	8.99	714
Neova Sigorta A.Ş.	Insurance	6.99	2,801	6.99	1,806
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.67	3,000	1.67	2,000
			6,515		4,520

The Bank has made contribution of payments which are capital commitment for, Neova Sigorta A.Ş and Kredi Garanti Fonu A.Ş. amounted 995 and 1,000 respectively during March 2011 and July 2011.

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 for trading

Financial assets held for trading includes share certificates and B Type Gold Fund listed in the Istanbul Stock Exchange (ISE) amounting to TL 27 and TL 12,355 (December 31, 2010 – TL 4,258) respectively.

The movement in financial assets excluding derivatives may be summarized as follows:

Financial investments	2011			2010		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	4,520	-	4,258	4,520	7,529	27
Exchange differences	-	-	-	-	-	-
Additions (*)	1,995	-	8,124	-	-	4,231
Disposals (sale and redemption)	-	-	-	-	(7,529)	-
Fair value movement	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance at the end of the year	6,515	-	12,382	4,520	-	4,258

(*) The Group has established Type B Gold fund listed in ISE and classified it under held for trading as of December 31, 2011.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2011**

(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, 2011 are given in the table below:

Current period	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	6,515	74,865	-	81,380
Forward transactions	-	69,692	-	69,692
Swap transactions	-	5,173	-	5,173
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	6,515	-	-	6,515
Financial liabilities				
Financial liabilities held for trading	-	38,265	-	38,265
Forward transactions	-	16,603	-	16,603
Swap transactions	-	21,662	-	21,662
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Prior period	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	4,231	28,480	-	32,711
Forward transactions	-	22,612	-	22,612
Swap transactions	-	5,868	-	5,868
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	4,231	-	-	4,231
Financial liabilities				
Financial liabilities held for trading	-	14,300	-	14,300
Forward transactions	-	9,361	-	9,361
Swap transactions	-	4,939	-	4,939
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2011**

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7. Due from financing activities, net

	2011	2010
Performing		
Funds invested from profit/loss sharing accounts	4,431,386	3,896,841
Funds invested from current accounts and equity	5,218,806	2,789,516
Income accruals on due from financing activities (*)	472,820	127,189
	10,123,012	6,813,546
Funds in arrears		
Funds invested from profit / loss sharing accounts	98,857	141,148
Funds invested from current accounts and equity	132,299	116,455
	231,156	257,603
Total	10,354,168	7,071,149
Impairment allowance		
Funds invested from profit / loss sharing accounts	(90,478)	(111,102)
Funds invested from current accounts and equity	(147,537)	(91,110)
	(238,015)	(202,212)
Total due from financing activities	10,116,153	6,868,937

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

For the year ended December 31, 2011 the Bank took possession of collateral (lands and buildings) from customers amounting to TL 31,127 (December 31, 2010 - TL 35,247), 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.

The movement in impairment allowance is as follows:

	2011	2010
Balance at the beginning of the year	202,212	182,150
Provisions - participation accounts	31,254	36,206
Provisions – bank	80,690	59,597
Recoveries of amounts previously provided for	(32,912)	(50,557)
Reserves written off in current year (*)	(43,229)	(25,184)
Balance at the end of the year	238,015	202,212

(*) In 2011, non-performing loans for which a 100% provision was made in prior periods amounting in total to TL 43,229 were written off (2010 – TL 25,184).

The impairment allowance of TL 238,015 (December 31, 2010 – TL 202,212) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

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Notes to consolidated financial statements (continued)

December 31, 2011

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7. Due from financing activities, net (continued)

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

	2011	2010
Balance at beginning of year	20,294	20,919
Provisions – bank	9,938	1,627
Provisions - participation accounts	2,639	(2,252)
Allowance at the end of the year	32,871	20,294

8. Minimum finance lease payments receivable, net

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

	2011	2010
Gross investment in finance leases	169,214	98,725
Unearned finance income	(36,342)	(14,964)
Total impaired receivables	6,087	8,111
Impairment allowance	(4,995)	(4,399)
Minimum lease payments receivable, net	133,964	87,473

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

	2011	2010
Balance at 1 January	4,399	1,283
Provisions - participation accounts	1,553	3,365
Provisions - Bank	1,863	2,834
Recoveries of amounts previously provided for	(217)	(3,083)
Impairment allowance written off in current year	(2,603)	-
Balance at the end of the year	4,995	4,399

Gross investment in finance leases as to their maturity:

	2011	2010
Not later than 1 year (*)	62,484	56,663
Later than 1 year and not later than 5 years	108,287	48,432
Later than 5 years	4,530	1,741
Minimum lease payments receivable, gross	175,301	106,836
Less : Unearned finance income	(36,342)	(14,964)
Net investment in finance leases	138,959	91,872
Less : Allowance for impairment	(4,995)	(4,399)
Minimum lease payments receivable, net	133,964	87,473

(*) includes total impaired receivables amounting to TL 6,087 (December 31, 2010 – TL 8,111).

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Notes to consolidated financial statements (continued)

December 31, 2011

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

As of December 31, 2011 TL 120,490 (December 31, 2010 - TL 57,264) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2011	2010
Not later than 1 year (*)	49,264	50,745
Later than 1 year and not later than 5 years	85,897	39,684
Later than 5 years	3,798	1,443
Net investment in finance leases	138,959	91,872

(*) includes total impaired receivables amounting to TL 6,087 (December 31, 2010 – TL 8,111).

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

9. Other assets

Other assets comprise the following:

	2011	2010
Clearing accounts	122,614	80,904
Receivables from precious metals transactions	46,828	40,596
Blockage for letter of guarantee (*)	2,812	17,443
Prepaid expenses	2,030	5,744
Value added tax (VAT) receivable	2,812	2,964
Receivable from assets sold	7,862	1,890
Receivables from Banking Operations	4,050	1,543
Other	4,542	13,920
	193,550	165,004

(*) Includes guarantees given to foreign correspondent banks in the name of customers to obtain cash or non cash loans.

10. 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.

	2011	2010
Uncompleted construction projects	33,800	21,371
Completed construction projects (inventories)	13,281	13,281
	47,081	34,652
(Less) Reserve for net realizable value	(7,448)	(10,114)
Total construction projects, net	39,633	24,538

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December 31, 2011

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11. Investment properties, net

	2011	2010
Balance at the beginning of the year	55,975	47,207
Additions	8,891	35,247
Disposal	(29,772)	(29,586)
Depreciation charge	(895)	(907)
Transfer from assets held for resale (Note 12)	15,759	5,504
Addition from purchase of Körfez Gayrimenkul	-	16,699
Reversal / (Charge) of Provisions for Investment Property	153	(175)
Transfer to assets held for resale (Note 12)	(18,984)	(18,014)
Balance at the end of the year	31,127	55,975
Cost	34,029	62,084
Accumulated depreciation	(1,620)	(4,531)
Accumulated impairment	(1,282)	(1,578)
Net carrying amount	31,127	55,975

Fair value of the investment properties is TL 60,553 (December 31, 2010 - TL 75,649) which is determined based on the valuations performed by independent qualified valuers on December 2011.

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.

12. Assets and a disposal group held for sale

At December 31, 2011, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 15,393 (December 31, 2010 – TL 16,278), 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:

	2011	2010
Balance at the beginning of the year	26,015	9,547
Additions	15,393	16,278
Transfer from investment property (Note 11)	18,984	18,014
Transfer to investment property (Note 11)	(15,759)	(5,504)
Disposal	(20,639)	(12,092)
Impairment	(32)	(228)
Balance at the end of the year	23,962	26,015

Gain on sale of assets held for sale amounting to TL 7,516 is included in other income in the income statement (December 31, 2010 – TL 9,767).

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Notes to consolidated financial statements (continued)

December 31, 2011

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

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2010, net of accumulated depreciation and impairment	33,290	39,160	13,743	560	56	86,809
Additions	22,802	17,041	9,642	3	-	49,488
Disposals	(1,338)	(678)	(626)	-	-	(2,642)
Depreciation charge for the year	(1,159)	(8,881)	(7,781)	(159)	-	(17,980)
At December 31, 2010, net of accumulated depreciation and impairment	53,595	46,642	14,978	404	56	115,675
Additions(**)	8,273	83,216	15,852	0	-	107,341
Disposals	(45,086)	(14,008)	(50)	0	(56)	(59,200)
Depreciation charge for the year	(101)	(20,096)	(1,010)	(134)	-	(21,341)
At December 31, 2011, net of accumulated depreciation and impairment	16,681	95,754	29,770	270	-	142,475

(*) TL 766 (net) and TL 1,901 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2011 and 2010, 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, 2010						
Cost	62,019	94,544	47,092	3,091	56	206,802
Accumulated depreciation	(7,762)	(47,902)	(32,114)	(2,687)	-	(90,465)
Accumulated impairment	(662)	-	-	-	-	(662)
Net carrying amount	53,595	46,642	14,978	404	56	115,675
At December 31, 2011						
Cost	22,157	161,217	38,314	877	-	222,565
Accumulated depreciation	(1,796)	(65,463)	(8,544)	(607)	-	(76,410)
Accumulated impairment	(3,680)	-	-	-	-	(3,680)
Net carrying amount	16,681	95,754	29,770	270	-	142,475

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2011 and 2010 is as follows:

	2011	2010
Motor vehicles	105	58
Leasehold improvements	6,149	8,753
Furniture and office equipment	21,271	7,133
	27,525	15,944

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

14. Intangible assets, net

	Software
At January 1, 2010	8,256
Additions	7,722
Disposals	(26)
Amortization charge for the year	(2,794)
At December 31, 2010, net of accumulated amortization	13,158
Additions	17,923
Disposals	(119)
Amortization charge for the year	(4,428)
At December 31, 2011, net of accumulated amortization	26,534
At December 31, 2010	
Cost (gross carrying amount)	22,629
Accumulated amortization	(9,471)
Net carrying amount	13,158
At December 31, 2011	
Cost (gross carrying amount)	40,433
Accumulated amortization	(13,899)
Net carrying amount	26,534

15. Due to other financial institutions and banks, Sukuk Securities issued and subordinated loans

Due to other financial institutions and banks as of December 31, 2011 and 2010 is as follows;

	Amount in TL	
	2011	2010
Original foreign currency		
US\$	1,343,358	472,542
Euro	181,565	10,355
Other	-	75
Total	1,524,923	482,972

As of December 31, 2011 borrowings remaining maturities of which is less than 12 months amount to TL 1,098,321 (As of December 31, 2010 – TL 482,972).

Sukuk securities as of December 31, 2011 and 2010 is as follows;

	Amount in TL	
	2011	2010
Sukuk certificates issued	867,927	156,433
Total	867,927	156,433

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements (continued)****December 31, 2011**

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

15. Due to other financial institutions and banks, Sukuk Securities issued and subordinated loans (continued)

The Bank has issued Sukuk securities, amounting to USD 100,000,000 on August 24, 2010 with maturity of 3 years, cost of 5,25% and 350,000,000 on October 31,2011 with maturity of 5 years, cost of 5,875%.

Subordinated loans as of December 31, 2011 and 2010 is as follows;

	Amount in TL	
	2011	2010
Subordinated loan provided by Kuwait Finance House	386,681	-
Total	386,681	-

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

16. Current and profit / loss sharing investors' accounts

	2011	2010
Current accounts:		
Turkish lira	1,293,820	1,066,562
Foreign currency	1,574,363	685,119
	2,868,183	1,751,681
Profit/loss sharing investors' accounts:		
Turkish lira	3,893,509	3,412,531
Foreign currency	3,110,472	2,242,936
	7,003,981	5,655,467
Blocked accounts:		
Turkish lira	37,428	20,632
Foreign currency	80,522	9,761
	117,950	30,393
Total current accounts and profit/loss investors' accounts	9,990,114	7,437,541
Expense accrual on current accounts and profit/loss sharing investors' accounts	40,708	41,743
Total current accounts and profit/loss sharing investors' accounts	10,030,822	7,479,284

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

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:

	2011 (in TL)			2010 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	2,318,458	2,171,326	4,489,784	3,196,630	1,714,583	4,911,213
From 1 month to 3 months	1,882,653	2,046,451	3,929,104	703,948	746,514	1,450,462
From 3 months to 1 year	245,800	293,871	539,671	123,207	201,311	324,518
Over one year	777,844	253,711	1,031,555	475,940	275,408	751,348
	5,224,755	4,765,359	9,990,114	4,499,725	2,937,816	7,437,541

At December 31, 2011 and 2010, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2011		2010	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent

Current and blocked accounts:

US\$	316,529,501	603,463	256,974,774	397,283
Euro	83,962,264	206,480	83,614,270	171,334
Precious metals		813,907		124,032
Other		31,037		2,231
		1,654,887		694,880

Profit/loss sharing investors' accounts:

US\$	640,064,516	1,220,283	1,954,070,352	1,318,536
Euro	282,677,700	695,161	1,244,337,121	576,002
Precious metals		1,195,028		348,398
		3,110,472		2,242,936
		4,765,359		2,937,816

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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

17. 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, 2011, and 2010 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.

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 (2006 - 2011), 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.

	2011	2010
Current tax expense	74,770	42,227
Prepaid tax (-)	(71,087)	(36,564)
Income taxes payable	3,683	5,663
	2011	2010
Current tax expense	74,770	42,227
Deferred tax credit/(charge)	(25,039)	(651)
Total income tax (charge)/credit	49,731	41,576

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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17. 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, 2011 and 2010 is as follows:

	2011	2010
Profit before income tax from continuing operations	277,651	209,828
Gain/(loss) before tax from a discontinued operation	-	-
Profit before income tax	277,651	209,828
At Turkish statutory income tax rate of 20%	55,395	41,966
Effect of change in tax rate	-	-
Effect of income not subject to tax	(9,657)	(3,389)
Effect of expenditure not allowable for income tax purposes	3,993	3,008
Effect of restatement pursuant to IAS 29 and other permanent differences	-	(9)
Income tax charge	49,731	41,576

Deferred income tax as of December 31, 2011 and 2010 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2011	2010
Provision for impairment in due from financing activities	10,122	5,555
Reserve for employee termination benefits	1,839	1,416
Deferred income	16,712	12,283
Bonus accrual of personnel	807	602
Impairment provision for subsidiaries, fixed assets and assets held for sale	1,703	-
Effect of precious metals valuation	21,610	-
Effect of other temporary differences	1,135	398
Deferred tax assets	53,928	20,254
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(2,117)	(3,033)
Accounting for finance leases	(369)	(574)
Derivative accrual	(6,020)	(2,836)
Effect of precious metals valuation	(2,242)	(411)
Provision for non cash loans and check commitments	(4,741)	-
Deferred tax liabilities	(15,489)	(6,854)
Deferred tax asset – net	38,439	13,400

Movement of net deferred tax asset is:

	2011	2010
Balance at the beginning of the year	13,400	12,749
Deferred tax (charge)/credit recognized in income statement	25,039	651
Balance at the end of the year	38,439	13,400

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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18. Other liabilities and provisions

	2011	2010
Clearing accounts	103,284	99,501
Personnel bonus accrual	28,357	25,993
Withholding tax and other tax payables	19,283	17,007
Payables to exporters and suppliers	10,954	10,465
Deferred revenue	625	5,103
Security premium for participation funds	4,549	3,539
Rent payables	-	447
Deductions on resource utilization fund	803	933
Other	15,914	8,950
Total other liabilities	183,769	171,938
Provisions		
Employee termination benefits	9,193	7,080
Other provisions	16,554	829
Total provisions	25,747	7,909
Total	209,516	179,847

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

	2011	2010
Balance at January 1	7,080	4,780
Utilized/paid	(1,588)	(1,080)
Arising during the year	2,017	2,517
Actuarial loss	1,684	863
Balance at the end of the year	9,193	7,080

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 2.7 and TL 2.5 at December 31, 2011 and 2010, 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, 2011 and 2010, 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:

	2011	2010
Discount rate (%)	9.8	10
Expected salary / ceiling increase rate (%)	5.2	5.1

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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19. 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 foreign currency and precious metals forward and swap 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, 2011								
	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								
Inflows	74,865	-	2,640,703	1,318,712	812,752	509,239	-	-
Outflows	-	38,265	2,606,100	1,308,625	789,576	507,899	-	-
	74,865	38,265	5,246,803	2,627,337	1,602,328	1,017,138	-	-

December 31, 2010								
	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								
Inflows	28,480	-	1,439,739	945,163	78,245	99,941	314,885	1,505
Outflows	-	14,300	1,420,369	944,181	76,043	94,080	304,565	1,500
	28,480	14,300	2,860,108	1,889,344	154,288	194,021	619,450	3,005

20. Share capital

	2011	2010
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	950.00 million	850.00 million

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

	2011		2010	
	Number	TL	Number	TL
At January 1	850,000,000	850,000	500,000,000	500,000
Shares issued in				
- bonus shares from retained earnings	100,000,000	100,000	50,000,000	50,000
- cash	-	-	300,000,000	300,000
At year end	950,000,000	950,000	850,000,000	850,000

The Bank has increased its share capital on May 1, 2011. The share capital increase was funded from the retained earnings amounting to TL 100,000.

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011

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20. Share capital (continued)

As of December 31, 2011 and 2010, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2011		2010	
	Amount	%	Amount	%
Kuwait Finance House	591,292	62.2	528,993	62.2
Directorate of Vakıf Foundations, Turkey	177,833	18.7	159,113	18.7
The Public Institution for Social Security, Kuwait	85,500	9.0	76,500	9.0
Islamic Development Bank	85,500	9.0	76,500	9.0
Other	9,875	1.1	8,894	1.1
Total share capital	950,000	100	850,000	100

21. Legal reserves, retained earnings, dividends paid and proposed and other reserves

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.

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 13,749 (2010 – TL 10,275).

	2011	2010
Ordinary shares		
Amount	13,749	10,275
TL (full) per share	0.015	0.013

Other reserves

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

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22. 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, 2011 and 2010.

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

	2011	2010
Net profit attributable to continuing operations of the Bank for basic earnings per share	227,920	168,252
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	227,920	168,252
Weighted average number of ordinary shares for basic earnings per share (thousands)	950,000	776,389
Basic earnings per share (expressed in full TL per share)	0.240	0.217
Basic earnings per share from continuing operations	0.240	0.217

23. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2010 - 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, 2010 - 18.7%), 9.0% (December 31, 2010 - 9.0%) and 9.0% (December 31, 2010 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder 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, 2011 and 2010 and transactions have been entered into with related parties during the years ended:

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

		2011		2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	52,614	357	-	-
KFH – Bahrain	Kuwaiti Dinar	-	-	1,260	7
	US\$	371,858	709	35,076,197	54,228
	BHD	-	-	15,580	64
Auto Land A.S.	TL	-	30,195	-	20,163
Other related parties		-	56,483	-	36,083
		87,744		110,545	

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Notes to consolidated financial statements (continued)

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23. Related party disclosures (continued)

ii) Due to other financial institutions:

		2011		2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW (1)	US\$	156,515,089	298,396	182,629,366	282,345
			298,396		282,345

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

		2011		2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	1,237,723	2,360	51,488,984	79,602
Kuwait Finance House (1)	TL	-	9,868	-	2,632
Kuwait Finance House (1)	KWD	11,000	74	181,090	12,719
Islamic Development Bank (1)	US\$	5,294	10	41,005,617	63,395
Islamic Development Bank (1)	TL	-	291	-	-
Kuwait Finance Malaysia	XAU	907,440	86,652	-	-
Directorate of Vakıf Foundations, Turkey (1)	TL	-	6,056	-	2,621
Neova Sigorta AS (*)	TL	-	3,273	-	5,687
	US\$	-	-	666,070	1,030
Other related parties	TL	-	-	-	30,783
			108,584		198,469

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

iv) Profit shares distributed:

		2011		2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	36,822	62	35,158	54
Directorate of Vakıf Foundations, Turkey (1)	TL	-	463	99,426	99
Neova Sigorta AS (*)	US\$	22,278	34	205,612	318
	TL	-	467	-	152
Public Institute for Social Securities KW	US\$	5,018,357	9,567	2,559,094	3,954
Other related parties	TL	-	-	-	703
			10,593		5,280

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

v) Non cash credits issued:

		2011		2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	156,063	298	203,316	314
Other related parties	TL	-	2,949	-	5,158
			3,247		5,472

(1) Shareholders.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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23. Related party disclosures (continued)

As of December 31, 2011 no provisions have been recognized in respect of loans given to related parties (December 31, 2010 - nil).

Loans amounting to TL 24 have been issued to directors during the year ended December 31, 2011 (December 31, 2009 – TL 186).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 8,092 during the year ended December 31, 2011 (December 31, 2010 – TL 6,058). As of December 31, 2011 the key management personnel did not receive any termination benefits (December 31, 2010 - TL nil).

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman
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
Nadir Alpaslan	B.O.D. Member
Shaheen H.A. AL GHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. and Audit Committee Chairman
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.

24. Fees and commission income and expense

	2011	2010
Fees and commission income		
Commissions on loans	93,516	60,297
Commission income from commitments	51,622	45,138
Communication expense charges	20,889	17,691
POS commission income	13,099	10,631
Credit card fees and commissions	8,724	7,506
Import letter of credit commissions	4,451	4,926
Income from agency activities	5,837	3,241
Commissions from checks and notes	2,569	2,214
Other	8,174	13,240
Total	208,881	164,884
	2011	2010
Fees and commission expense		
Credit card machine and fees paid for credit cards	18,746	20,433
Brokerage fees on borrowings	7,750	2,160
ATM charges	76	48
Other	9,496	2,192
Total	36,068	24,833

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Notes to consolidated financial statements (continued)

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25. Salaries and employee benefits

	2011	2010
Staff costs		
Wages and salaries	121,186	94,440
Bonus	28,761	25,250
Other fringe benefits	19,057	16,034
Social security premiums	24,175	13,917
Health expenses	6,059	4,594
Provision for employee termination benefits	3,701	3,380
Other	6,448	5,288
Total	209,387	162,903

26. Other expenses

	2011	2010
Impairment on goodwill (*)	-	6,619
Impairment on investment property (Note 11)	(153)	175
Impairment on asset held for sale (Note 12)	32	228
Impairment charges/(reversal)	(121)	7,022
Insurance fund premium expense	17,714	12,645
Communication	9,644	7,733
Repair and maintenance expenses	11,883	8,345
Advertising expenses	9,449	6,570
Professional fees	9,639	8,401
Non taxable income	2,503	2,729
Cleaning expense	2,109	4,784
Loss from sale of assets	295	313
Energy expenses	5,171	4,372
Travel and representation expenses	1,816	2,795
Subscription and membership expenses	2,556	2,051
Stationery and publishing expenses	2,068	1,470
Insurance expenses	1,197	678
Computer usage expenses	184	329
Other	21,692	9,183
Other expenses	97,920	72,398
Total	97,799	79,420

(*) The goodwill of TL 6,619 arising from the acquisition of Körfez in 2010 consists of difference between the fair value of the net assets of Körfez at the acquisition date amounting to TL 12,671 (51% of the total) and the purchasing price amounting to TL 19,290 (10,572,000USD (16,840 TL) and TL 2,450). The Group has provided full reserve for the goodwill since the goodwill is measured as not recoverable.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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27. Commitments and contingencies

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

The following is a brief summary of significant contingencies and commitments as of December 31, 2011 and 2010:

	2011	2010
Letters of guarantee issued by the Bank	4,355,974	3,150,355
Letters of credit	606,486	535,890
Commitments	1,629,641	1,284,671
Acceptance credits	59,492	39,285
Other guarantees	19,726	4,678
Total	6,671,319	5,014,879

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 allocation of operational lease obligations due to rent agreements of branches within lease periods as of December 31, 2011 and 2010 is as follows:

	2011	2010
Within one year	35,535	20,573
After one year but not more than five years	84,515	57,763
More than five years	30,877	19,479
	150,927	97,815

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 4,162 and TL 1,428 as of December 31, 2011 and 2010 respectively. As of December 31, 2011, the amount of the checks and bonds in collection are TL 2,392,255 (December 31, 2010 – TL 1,257,619) and TL 416,311 (December 31, 2010 – TL 271,256) respectively.

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28. 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.

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28. 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)

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

28. 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	2011	2010
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	1,274,050	623,989
Deposit with banks and financial institutions	853,973	933,913
Due from financing activities	10,116,153	6,868,937
Minimum financial lease payments receivable	133,964	87,473
Financial assets-held for trading	12,355	4,231
Other assets	193,550	165,004
Derivative financial instruments	74,865	28,480
Total	12,658,910	8,712,027
Contingent liabilities	4,962,460	3,686,245
Other guarantees	79,218	43,963
Commitments	1,629,641	1,284,671
Total	6,671,319	5,014,879
Total credit risk exposure	19,330,229	13,731,453

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, 2011 was TL 112,032 (December 31, 2010 - TL 145,418) and non cash credit exposure as of December 31, 2011 was TL 186,728 (December 31, 2009 - TL 148,663) before taking account of collateral or other credit enhancements.

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Notes to consolidated financial statements (continued)

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

28. 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:

	2011	2010
	Gross exposure	Gross exposure
Construction and materials	5,471,892	3,970,832
Financial services	4,031,869	3,063,621
Manufacturing	2,082,031	1,377,026
General retailers	3,197,382	2,071,096
Mining operations	307,620	515,067
Electricity	582,733	426,899
Telecommunications	43,418	25,301
Health care and social services	523,285	378,077
Forestry	110,595	93,984
Food and beverages	621,982	447,936
Real estate	40,450	22,572
Other	2,322,919	1,320,660
Total	19,336,176	13,713,071

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.

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28. 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.

2011	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)	1,274,050	853,973	-	-	-	2,128,023
Financing and leasing receivables	393,104	7,659,133	274,560	-	1,923,320	10,250,117
Corporate lending	362,150	5,547,267	43,832	-	801,822	6,755,071
Small business lending	29,693	1,108,391	123,391	-	289,636	1,551,111
Consumer lending	26	981,066	105,308	-	759,762	1,846,162
Credit cards	1,235	22,409	2,029	-	72,100	97,773
Contingent liabilities and other guarantees	653,787	3,561,922	34,572	-	791,397	5,041,678
Commitments	733,025	-	-	-	896,616	1,629,641
Total	3,053,966	12,075,028	309,132	-	3,611,333	19,049,459

2010	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)	623,989	933,913	-	-	-	1,557,902
Financing and leasing receivables	221,613	3,063,049	128,234	-	3,543,514	6,956,410
Corporate lending	219,456	3,040,618	127,935	-	1,193,583	4,581,592
Small business lending	1,666	17,239	46	-	886,770	905,721
Consumer lending	-	-	-	-	1,392,133	1,392,133
Credit cards	491	5,192	253	-	71,028	76,964
Contingent liabilities and other guarantees	452,106	2,008,123	81,866	-	1,188,113	3,730,208
Commitments	625,386	-	-	-	659,285	1,284,671
Total	1,923,094	6,005,085	210,100	-	5,390,912	13,529,191

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

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28. Financial risk management (continued)

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

2011	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	154,181	56,374	7,060	-	217,615
Consumer lending	6,436	18,087	9,338	-	33,861
Small business lending	37,873	42,291	24,538	-	104,702
Credit cards	862	-	5	-	867
Total	199,352	116,752	40,941	-	357,045

2010	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	9,111	3,491	13,062	-	25,664
Consumer lending	122,055	40,289	15,433	-	177,777
Small business lending	52,203	18,869	8,380	-	79,452
Credit cards	4,709	2,657	1,246	-	8,612
Total	188,078	65,306	38,121	-	291,505

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2011 and 2010 comprise of blocked accounts, property and machinery pledges.

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

	2011	2010
Due from financing activities:		
Corporate lending	334,314	330,745
Small business lending	5,998	18,394
Consumer	10,037	8,155
Total renegotiated financial assets	350,349	357,294

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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28. Financial risk management (continued)

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Maturity analysis of assets and liabilities as of December 31, 2011

	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with the Central Bank	521,315	-	521,315
Balances with other banks and financial institutions	853,973	-	853,973
Reserve deposits at the Central Bank	924,366	-	924,366
Financial assets – held for trading	87,247	-	87,247
Derivative financial instruments	74,865	-	74,865
<i>Share Certificates</i>	27	-	27
Gold Fund	12,355	-	12,355
Financial assets – available-for-sale	6,515	-	6,515
Due from financing activities, net	7,039,283	3,076,870	10,116,153
Minimum finance lease payments receivable, net	7,325	126,639	133,964
Precious Metals	1,394,280	-	1,394,280
Other assets	193,550	-	193,550
Construction projects, net	-	39,633	39,633
Investment properties, net	-	31,127	31,127
Property and equipment, net	-	142,475	142,475
Intangible assets, net	-	26,534	26,534
Deferred tax assets	-	38,439	38,439
Assets and a disposal group held for sale	23,962	-	23,962
Total assets	8,827,717	5,705,816	14,533,533
Liabilities			
Due to other financial institutions and banks	1,283,229	241,694	1,524,923
Sukuk securities issued	-	867,927	867,927
Subordinated Loans	-	386,681	386,681
Current and profit / loss sharing investors' accounts	9,406,188	624,634	10,030,822
Derivative financial instruments	38,265	-	38,265
Other liabilities	183,769	-	183,769
Provisions	-	25,747	25,747
Income taxes payable	3,683	-	3,683
Liabilities	10,915,134	2,146,683	13,061,817
Net	(2,087,417)	3,559,133	1,471,716

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

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28. Financial risk management (continued)

Maturity analysis of assets and liabilities as of December 31, 2010.

	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with the Central Bank	415,764	-	415,764
Balances with other banks and financial institutions	933,913	-	933,913
Reserve deposits at the Central Bank	329,844	-	329,844
Financial assets – held for trading	32,738	-	32,738
Derivative financial instruments	28,480	-	28,480
<i>Share Certificates</i>	27	-	27
Gold Fund	4,231	-	4,231
Financial assets – available-for-sale	4,520	-	4,520
Due from financing activities, net	4,401,171	2,467,766	6,868,937
Minimum finance lease payments receivable, net	46,346	41,127	87,473
Precious Metals	507,311	-	507,311
Other assets	165,004	-	165,004
Construction projects, net	-	3,167	3,167
Investment properties, net	-	55,975	55,975
Property and equipment, net	-	137,046	137,046
Intangible assets, net	-	13,158	13,158
Deferred tax assets	-	13,400	13,400
Assets and a disposal group held for sale	26,015	-	26,015
Total assets	6,862,626	2,731,639	9,594,265
Liabilities			
Due to other financial institutions and banks	482,972	-	482,972
Sukuk securities issued	-	156,433	156,433
Current and profit / loss sharing investors' accounts	6,903,366	575,918	7,479,284
Derivative financial instruments	14,285	15	14,300
Other liabilities	171,938	-	171,938
Provisions	-	7,909	7,909
Income taxes payable	5,663	-	5,663
Liabilities	7,578,224	740,275	8,318,499
Net	(715,598)	1,991,364	1,275,766

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

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28. 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, 2011						
Due to other financial institutions and banks	-	517,978	778,619	264,964	-	1,561,561
Subordinated Loans	-	-	-	-	391,902	391,902
Sukuk Issued	-	-	-	882,531	-	882,531
Derivative financial instruments(**)	-	2,098,201	507,899	-	-	2,606,100
Current accounts	2,868,183	-	-	-	-	2,868,183
Profit and loss sharing accounts(**)	-	5,581,192	944,651	748,742	-	7,274,585
Total undiscounted financial liabilities	2,868,183	8,197,371	2,231,169	1,896,237	391,902	15,584,862
As at December 31, 2010						
Due to other financial institutions and banks	-	121,245	368,170	-	-	489,415
Sukuk Issued	-	-	-	179,314	-	179,314
Derivative financial instruments(*)	-	1,020,224	398,645	1,500	-	1,420,369
Current accounts	1,751,681	-	-	-	-	1,751,681
Profit and loss sharing accounts(**)	-	4,509,914	629,429	588,260	-	5,727,603
Total undiscounted financial liabilities	1,751,681	5,651,383	1,396,244	769,074	-	9,568,382

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

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

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2011						
Contingent liabilities and other guarantees(*)	26,767	1,599,652	1,062,720	1,980,415	372,124	5,041,678
Commitments	1,629,641	-	-	-	-	1,629,641
Total	1,656,408	1,599,652	1,062,720	1,980,415	372,124	6,671,319
December 31, 2010						
Contingent liabilities and other guarantees	805,928	657,537	909,108	1,170,194	187,441	3,730,208
Commitments	1,284,680	-	-	-	-	1,284,680
Total	2,090,608	657,537	909,108	1,170,194	187,441	5,014,888

(*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

Market risk

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

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

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

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28. Financial risk management (continued)

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

Market risk – Non-trading

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

	December 31, 2011				December 31, 2010	
	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Precious metal						
Gold	+10	(1,230)		+10	(429)	
Gold	-10	1,230		-10	429	

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

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

Currency	December 31, 2011				December 31, 2010	
	Increase/ decrease in currency rate in %	Effect on profit before tax	Effect on equity	Increase/ decrease in currency rate in %	Effect on profit before tax	Effect on equity
USD	+10	(3,200)	2,328	+10	(1,453)	31
USD	-10	3,200	(2,328)	-10	1,453	(31)
EUR	+10	24	-	+10	875	-
EUR	-10	(24)	-	-10	(875)	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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28. Financial risk management (continued)

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

December 31, 2011

	EUR	USD	Other	Precious Metals	TL	Total
Cash and balances with the Central bank	20,280	42,857	2,619	-	455,559	521,315
Deposits with other banks and financial institutions	165,978	596,825	39,458	-	51,712	853,973
Reserve deposits at the Central Bank	316	634,606	-	289,444	-	924,366
Financial assets – available-for-sale	-	714	-	-	5,801	6,515
Financial assets – held for trading	-	13,516	365	-	73,366	87,247
Due from financing activities, net	764,581	3,279,382	2,180	151,379	5,918,631	10,116,153
Minimum finance lease payments receivable, net	63,658	56,922	-	-	13,384	133,964
Precious metals	-	-	-	1,394,280	-	1,394,280
Other assets	28,479	23,772	15,158	1	126,140	193,550
Construction projects, net	-	-	-	-	39,633	39,633
Investment properties, net	-	-	-	-	31,127	31,127
Assets held for sale and disposal of group, net	-	-	-	-	23,962	23,962
Property and equipment, net	-	-	-	-	142,475	142,475
Intangible assets, net	-	-	-	-	26,534	26,534
Deferred tax assets	-	-	-	-	38,439	38,439
Total assets	1,043,292	4,648,594	59,780	1,835,104	6,946,763	14,533,533
Due to other financial institutions and banks	181,565	1,343,358	-	-	-	1,524,923
Sukuk Issued	-	867,927	-	-	-	867,927
Subordinated Loans	-	386,681	-	-	-	386,681
Current and profit / loss sharing investors' accounts	905,897	1,860,198	31,038	2,008,934	5,224,755	10,030,822
Other liabilities	1,526	3,528	345	262	178,108	183,769
Provisions	-	-	-	-	25,747	25,747
Income taxes payable	-	-	-	-	3,683	3,683
Derivative financial instruments	-	29,696	3	-	8,566	38,265
Equity	-	-	-	-	1,471,716	1,471,716
Total liabilities and equity	1,088,988	4,491,388	31,386	2,009,196	6,912,575	14,533,533
Net balance sheet position	(45,696)	157,206	28,394	(174,092)	34,188	-
Net off-balance sheet position	48,042	(189,210)	(12,910)	159,196	(5,118)	-

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

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28. Financial risk management (continued)

December 31, 2010

	EUR	USD	Other	Precious metals	TL	Total
Cash and balances with the Central bank	15,666	47,500	1,583	-	351,015	415,764
Deposits with other banks and financial institutions	17,345	557,971	29,979	-	328,618	933,913
Reserve deposits at the Central Bank	-	329,487	-	-	357	329,844
Financial assets – available-for-sale	-	714	-	-	3,806	4,520
Financial assets – held for trading	3,552	12,340	4,599	-	12,247	32,738
Due from financing activities, net	689,909	1,696,376	2	1,544	4,481,106	6,868,937
Minimum finance lease payments receivable, net	58,110	18,903	-	-	10,460	87,473
Precious metals	-	-	-	507,311	-	507,311
Other assets	3,900	38,905	3,203	-	118,996	165,004
Construction projects, net	-	-	-	-	24,538	24,538
Investment properties, net	-	-	-	-	55,975	55,975
Assets held for sale and disposal of group, net	-	-	-	-	26,015	26,015
Property and equipment, net	-	186	-	-	115,489	115,675
Intangible assets, net	-	-	-	-	13,158	13,158
Deferred tax assets	-	-	-	-	13,400	13,400
Total assets	788,482	2,702,382	39,366	508,855	5,555,180	9,594,265
Due to other financial institutions and banks	10,356	472,542	74	-	-	482,972
Sukuk Issued	-	156,433	-	-	-	156,433
Current and profit / loss sharing investors' accounts	785,506	1,672,681	12,680	472,433	4,535,985	7,479,285
Other liabilities	2,067	1,169	890	205	167,607	171,938
Provisions	-	-	-	-	7,909	7,909
Income taxes payable	-	-	-	-	5,663	5,663
Derivative financial instruments	188	8,494	17	-	5,601	14,300
Equity	-	-	-	-	1,275,765	1,275,765
Total liabilities and equity	798,117	2,311,319	13,661	472,638	5,998,530	9,594,265
Net balance sheet position	(9,635)	391,063	25,705	36,217	(443,350)	-
Net off-balance sheet position	18,381	(405,594)	(51,824)	(13,724)	452,761	-

Pricing risk

The Group issues loans 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.

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Notes to consolidated financial statements (continued)

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28. 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, 2011 and 2010, 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 unconsolidated financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	2011	2010		
Tier 1 capital	1,388,749	1,221,964		
Tier 2 capital	380,446	43,047		
Deductions from capital	(14,229)	(2,382)		
Total capital	1,754,966	1,262,629		
Risk weighted assets amount subject to market and operational risk	10,953,941	7,406,214		
	Actual	Required	Actual	Required
Tier 1 capital ratio	12.67%		16.48%	
Total capital ratio	16.02%	12%	17.05%	12%

29. 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 2011, the fair value of financing and leasing receivables has been estimated as TL 10,245,524 (December 31, 2010 – TL 7,027,590) whereas their carrying amount is TL 10,250,117 (December 31, 2010 – TL 6,956,410).

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Notes to consolidated financial statements (continued)

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29. Fair value of financial instruments (continued)

Fair value of borrowings (including sukuk certificates issued and subordinated loans) at amortized cost is estimated as TL 2,854,962 (December 31, 2010 – TL 643,087), whereas their carrying amount is TL 2,779,531 (December 31, 2010 – TL 639,405). 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.

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.

30. Subsequent events

Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., one of the subsidiaries of the Bank, has decided to increase its registered share capital from TL 65,822 to TL 82,500 and decided to tender a public offering for the increased portion of TL 16,678 by restricting the preemptive rights of the current shareholders. Furthermore, it was decided to issue B type shares in return of A type shares one-time and decided to tender a public offer for 23.037.700 shares already owned by the Bank and therefore decided to tender a public offering for 39.715.700 shares in total.

In General Assembly meeting dated April 18, 2012, the management of the Bank decided to distribute dividends for an amount of TL 16,000 to the shareholders and to increase the share capital by TL 150,000 via transfer from retained earnings.