

**Kuveyt Türk Katılım Bankası  
Anonim Şirketi**

**Consolidated financial statements together with  
independent auditors' report December 31, 2010**

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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, 2010**

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, 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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*

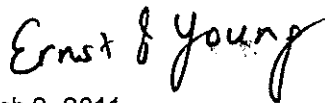
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



March 9, 2011  
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of financial position

As at December 31, 2010

(Currency – In thousands of Turkish Lira - TL)

	Notes	2010	2009
<b>Assets</b>			
Cash and balances with the Central Bank	4	415,764	239,090
Balances with other banks and financial institutions	4, 30	933,913	903,319
Reserve deposits at the Central Bank	5	329,844	218,689
Financial assets – held for trading	6, 30	32,738	9,952
Derivative financial instruments	21, 30	28,480	9,925
<i>Share Certificates</i>		27	27
Gold Fund		4,231	-
Financial assets – available-for-sale	6, 30	4,520	4,520
Financial assets – held to maturity	6, 30	-	7,529
Due from financing activities, net	8, 30	6,868,937	4,586,786
Minimum finance lease payments receivable, net	9, 30	87,473	53,512
Precious Metals		507,311	409,854
Other assets	10, 30	165,004	180,367
Construction projects, net	11	3,167	3,025
Investment in associate	7	-	12,315
Investment properties, net	12	55,975	47,207
Property and equipment, net	15	137,046	108,180
Intangible assets, net	16	13,158	8,256
Deferred tax assets	19	13,400	12,749
		<b>9,568,250</b>	<b>6,805,350</b>
Assets and a disposal group held for sale	13	26,015	9,547
<b>Total assets</b>		<b>9,594,265</b>	<b>6,814,897</b>
<b>Liabilities and equity</b>			
Due to other financial institutions and banks	17	482,972	383,681
Sukuk securities issued	17	156,433	-
Current and profit / loss sharing investors' accounts	18	7,479,284	5,545,201
Derivative financial instruments	21	14,300	6,231
Other liabilities	20	171,938	49,422
Provisions	20	7,909	7,107
Income taxes payable	19	5,663	5,774
		<b>8,318,499</b>	<b>5,997,416</b>
Liabilities directly associated with assets classified as held for sale	13	-	-
<b>Total liabilities</b>		<b>8,318,499</b>	<b>5,997,416</b>
Share capital	22	850,000	500,000
Share premium	22	23,250	23,250
Legal reserves and retained earnings	23	402,208	294,231
Currency translation differences		308	-
<b>Total equity attributable to equity holders of the parent</b>		<b>1,275,766</b>	<b>817,481</b>
<b>Total liabilities and equity</b>		<b>9,594,265</b>	<b>6,814,897</b>

The policies and explanatory notes on pages 6 through 61 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, 2010  
(Currency – In thousands of Turkish Lira - TL)**

	Notes	2010	2009
<b>Income from financing activities:</b>			
Profit on originated loans from profit / loss sharing accounts		362,672	427,298
Profit on originated loans from current accounts and equity		249,196	150,245
Profit on deposits with other banks and financial institutions		22,727	35,878
Profit on finance leases		4,656	7,219
<b>Total income from financing activities</b>		<b>639,251</b>	<b>620,640</b>
Profit shares distributed to participation accounts		(303,553)	(349,348)
Profit shares distributed to other banks and financial institutions		(14,543)	(20,496)
<b>Net financing income</b>		<b>321,155</b>	<b>250,796</b>
Provision for impairment of amounts due from financing activities and lease receivables	8, 9	(62,431)	(64,821)
<b>Net financing income after provision for impairment in due from financing activities and lease receivables</b>		<b>258,724</b>	<b>185,975</b>
Foreign exchange gain, net		40,115	32,731
<b>Net financing income after net foreign exchange gain / (loss)</b>		<b>298,839</b>	<b>218,706</b>
Fees and commission income	26	164,884	157,436
Income/(loss) from construction projects, net		1,865	642
Net trading income		23,852	47,762
Other income		44,857	10,904
Share of profit / (loss) of an associate	7	(489)	30
<b>Total other operating income</b>		<b>234,969</b>	<b>216,774</b>
Fees and commission expense	26	(24,833)	(28,552)
Staff costs	27	(162,903)	(134,297)
Depreciation and amortization expense		(21,681)	(18,216)
Withholdings and other taxes		(11,366)	(4,503)
Rent expense		(23,777)	(19,811)
Other expenses	28	(79,420)	(63,126)
<b>Total other operating expense</b>		<b>(323,980)</b>	<b>(268,505)</b>
<b>Income before taxation</b>		<b>209,828</b>	<b>166,975</b>
Current tax charge	19	(42,227)	(34,902)
Deferred tax (charge)/credit	19	651	(1,847)
<b>Net income for the year from continuing operations</b>		<b>168,252</b>	<b>130,226</b>
<b>Net income/(loss) after tax for the year from a discontinued operation</b>	13	<b>-</b>	<b>4,055</b>
<b>Net income for the year</b>		<b>168,252</b>	<b>134,281</b>
<b>Other comprehensive income for the year</b>		<b>308</b>	<b>-</b>
Exchange differences on translation of the foreign subsidiary		308	
<b>Total comprehensive income for the year</b>		<b>168,560</b>	<b>134,281</b>
<b>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)</b>	24	<b>0.253</b>	<b>0.244</b>
<b>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</b>	24	<b>0.253</b>	<b>0.237</b>

The policies and explanatory notes on pages 6 through 61 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, 2010  
(Currency – In thousands of Turkish Lira - TL)**

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Currency translation differences	Total
<b>Balances at January 1, 2009</b>		500,000	23,250	12,312	153,138	-	688,700
Transfer from retained earnings to legal reserves		-	-	5,754	(5,754)	-	-
Dividends paid	23	-	-	-	(5,500)	-	(5,500)
Total comprehensive income for the year		-	-	-	134,281	-	134,281
<b>Balances at December 31, 2009</b>		500,000	23,250	18,066	276,165	-	817,481
Share capital increase	22	350,000	-	-	(50,000)	-	300,000
Transfer from retained earnings to legal reserves		-	-	7,498	(7,498)	-	-
Dividends paid	23	-	-	-	(10,275)	-	(10,275)
Total comprehensive income for the year		-	-	-	168,252	308	168,560
<b>Balances at December 31, 2010</b>		850,000	23,250	25,564	376,644	308	1,275,766

The policies and explanatory notes on pages 6 through 61 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, 2010**  
**(Currency – In thousands of Turkish Lira - TL)**

	Notes	2010	2009
<b>Cash flows from operating activities:</b>			
Income from continuing operations before taxation		209,828	166,975
Income/(loss) from discontinued operations before taxation		-	4,055
Depreciation and amortization	12, 15, 16	21,681	18,216
Provision for employee termination benefits and personnel bonus accrual	20	10,246	1,715
Provision for impairment in due from financing activities and lease receivables	8, 9	62,431	64,821
Provision for impairment in intangible assets, property and equipment and investment properties	12	175	1,259
Income accrual of funds invested		(2,325)	201,660
Expense accrual of participation accounts	18	9,912	13,285
Income accrual from deposits at the Central Bank of Turkey		1,638	1,608
Income taxes paid		(42,338)	(40,615)
Expense accrual of funds borrowed		2,530	(8,154)
Net change in derivative financial instruments	21	(10,486)	(15,425)
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		(10,480)	1,707
Gain on sale of discontinued operation		-	5,392
Exchange gain of held to maturity investment	6	-	54
<b>Operating income before changes in operating assets and liabilities</b>		<b>252,812</b>	<b>416,553</b>
<b>Net changes in :</b>			
Reserve deposits at the Central Bank of Turkey		(112,793)	(6,875)
Due from financing activities	8	(2,352,090)	(973,227)
Minimum finance lease payments receivables		(35,210)	59,475
Other assets and construction projects		15,221	(168,250)
Current accounts and profit/loss sharing investors' accounts	18	1,924,171	1,412,455
Other liabilities		115,704	820
Payment for employee termination benefits	20	(1,080)	(829)
Precious Metals		(97,457)	(309,822)
<b>Net cash provided by operating activities</b>		<b>(290,722)</b>	<b>430,300</b>
<b>Cash flows from investing activities:</b>			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(4,231)	(3,158)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	7,529	64
Purchase of property and equipment, intangible assets and investment properties	12, 15, 16	(59,275)	(63,314)
Proceeds from sale of property and equipment, intangible assets and investment properties		28,419	6,239
Additions to assets and liabilities held for sale	13	(16,278)	(7,130)
Proceeds from sale of asset and liabilities held for sale	13	12,092	4,023
(Purchase) / sale of investment in associate / subsidiary	14	(15,999)	15,143
<b>Net cash used in investing activities</b>		<b>(47,743)</b>	<b>(48,133)</b>
<b>Cash flows from financing activities:</b>			
Dividends paid	23	(10,275)	(5,500)
Increase in due to financial institutions and banks		103,801	(429,119)
Sukuk securities issued		154,600	
Increase in share capital	22	300,000	-
<b>Net cash provided by financing activities</b>		<b>548,126</b>	<b>(434,619)</b>
<b>Net increase in cash and cash equivalents</b>		<b>209,661</b>	<b>(52,452)</b>
Net foreign exchange difference on cash and cash equivalents		(2,393)	7,265
Cash and cash equivalents at the beginning of the year	4	1,142,409	1,187,596
<b>Cash and cash equivalents at the end of the year</b>	4	<b>1,349,677</b>	<b>1,142,409</b>
Profit share received		636,926	804,925
Profit share paid		314,016	384,060

The policies and explanatory notes on pages 6 through 61 form an integral part of the consolidated financial statements.

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

### **Notes to consolidated financial statements**

**December 31, 2010**

(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/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The 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 February 28, 2011. 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, 2010, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's associate, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank had a 100% shareholding was incorporated in June 1996 in Turkey. The Bank had signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 to transfer 51% of the shares of Körfez in exchange for USD 10,613,000 and TL 2,450. The remaining 49% of its shares had been classified under investments in an associate in the previous year's financial statements. Subsequently, On June 6, 2010, the Group bought back 51 per cent of the outstanding ordinary shares of Körfez, and obtained full control of Körfez by having 100 percent shareholding(Note 7).Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

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

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

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



## **2. Summary of significant accounting policies**

### **2.1 Basis of preparation**

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

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.

### **2.2 Changes in accounting policies**

The accounting policies adopted in the preparation of the financial statements as of December 31, 2010 are consistent with the previous financial year, except for the adoption of new standards and IFRIC interpretations which are noted below.

#### **New and amended standards and interpretations applicable to December 2010 year-end**

The new standards which are effective as of January 1, 2010 and changes and interpretations of current standards are as follows:

- Amendments to IFRS 2 'Group cash settled sharebased Payment Transactions',
- IFRS 3, 'Business Combinations' (Revised) and IAS 27, 'and Separate Financial Statements' (Amended),
- IAS 39 Financial Instruments: Recognition and Measurement – 'Eligible Hedged Items',
- IFRIC 17 'Distributions of Non-cash Assets to Owners' (Effective for annual periods beginning on or after 1 July 2009)
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The above changes do not have any impact on financial position and performance of the Group other than IFRS 3 (Revised) for which related disclosures are made in the notes.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended): The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**2. Summary of significant accounting policies (continued)**

**New and amended standards and interpretations issued that are effective subsequent to December 2010 year-ends:**

Standards issued but not yet effective as to the date of issuance of the Group's financial statements and which are not early adopted by the Group are listed below:

- Amendments to IFRS 7 Financial Instruments: Disclosures — Amendments enhancing disclosures about transfers of financial assets (Effective for periods beginning on or after 1 July 2011)
- IFRS 9 Financial Instruments (Effective for periods beginning on or after 1 January 2013),
- Revisions to IFRS 9 Financial Instruments – Addition of requirements to IFRS 9 on classification and measurement of financial liabilities.
- IAS 24 Related Party Disclosures (Revised) (Effective for periods beginning on or after 1 January 2011),
- IAS 32 Classification of Rights Issues (Amendment) (Effective for periods beginning on or after 1 February 2010),
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) (Effective for periods beginning on or after 1 January 2011, with earlier application permitted),
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (Effective for periods beginning on or after 1 July 2010, with earlier application permitted).
- IAS 12 “Deferred Tax: Recovery of Underlying Assets” (Amendments to IAS 12)

Improvements to IFRSs (issued in May 2010):

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 effective dates of the improvements are various and the earliest is for the financial year beginning July 1, 2010. Early application is permitted in all cases

- IFRS 3: Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised standard
- IFRS 3: Measurement of non-controlling interests
- IFRS 3: Un-replaced and voluntarily replaced share-based payment awards
- IFRS 7: Clarification of disclosures
- IAS 1: Clarification of statement of changes in equity
- IAS 27: Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements
- IAS 34: Significant events and transactions
- IFRIC 13: Fair value of award credits

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

## **2. Summary of significant accounting policies (continued)**

### **2.3.1 Significant accounting judgments and estimates**

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

The judgments and estimates that may have a significant effect on amounts in the financial statements 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, 2010 and 2009 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, 2010

(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, 2010 and 2009 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, 2010 and 2009, 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, 2010	December 31, 2009
"Körfez" (*)	Turkey	100%	49%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Dubai Limited"	Turkey	100%	100%
"Kuveyt Turk Sukuk Ltd. (SPV)	United Kingdom	-	-

(\*) The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL 2,450. According to IAS 28 "Investments in Associates", the remaining 49% of its shares of Körfez had been classified under the investment in an associate in the financial statements prepared as of December 31, 2009. Subsequently, On June 6, 2010, the Group bought back 51 per cent of the outstanding ordinary shares of Körfez, and obtained full control of Körfez by having 100 percent shareholding (Note 14).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

(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, 2008	1.51	2.14
December 31, 2009	1.51	2.16
<b>December 31, 2010</b>	<b>1.54</b>	<b>2.04</b>

#### 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 1.5118 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.

## **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.

## **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.

## **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.

### **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.



## **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 unrecognised 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 recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised 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.

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

(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.

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**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.

## **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.

## **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.

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

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

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

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

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

## **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, 2010**

(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**

Parties are considered related to the Group if:

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

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

### **Subsequent events**

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

### **Segment information**

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

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

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

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

## 2. Summary of significant accounting policies (continued)

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 2010 or 2009.

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.

## 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, 2010 and 2009, respectively.

For the year ended December 31, 2010	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<b>Revenue</b>					
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	-	-	-	-	-
<b>Net operating income</b>	<b>248,493</b>	<b>217,415</b>	<b>43,067</b>	<b>-</b>	<b>508,975</b>
<b>Results</b>					
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
<b>Segment profit/(loss)</b>	<b>238,244</b>	<b>227,917</b>	<b>18,897</b>	<b>(275,230)</b>	<b>209,828</b>
Income tax expense				(41,576)	
<b>Net profit for the year</b>	<b>238,244</b>	<b>227,917</b>	<b>18,898</b>	<b>(316,806)</b>	<b>168,252</b>
<b>Asset and liabilities as of December 31, 2010</b>					
<b>Assets</b>					
Capital expenditures					
Property and equipment	-	-	-	49,488	49,488
Other intangible assets	-	-	-	7,722	7,722
<b>Total assets</b>	<b>2,325,389</b>	<b>4,729,899</b>	<b>2,206,488</b>	<b>332,489</b>	<b>9,594,265</b>
<b>Total liabilities</b>	<b>5,026,332</b>	<b>2,355,141</b>	<b>653,704</b>	<b>283,322</b>	<b>8,318,499</b>

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



Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2010

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

3. Segment reporting (continued)

For the year ended December 31, 2009	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<b>Revenue</b>					
Third party	64,921	354,652	52,176	-	471,749
Intersegment	136,972	(133,841)	(3,131)	-	-
Total operating income	201,893	220,811	49,045	-	471,749
Credit loss expense	(30,443)	(34,378)	-	-	(64,821)
Impairment losses on financial investments	-	-	-	-	-
<b>Net operating income</b>	<b>171,450</b>	<b>186,433</b>	<b>49,045</b>	<b>-</b>	<b>406,928</b>
<b>Results</b>					
Net profit share income/(expense)	140,453	96,658	13,685	-	250,796
Net fees and commission income	58,069	90,484	(19,669)	-	128,884
Net trading income	-	-	47,762	-	47,762
<b>Segment profit/(loss)</b>	<b>194,843</b>	<b>213,472</b>	<b>45,218</b>	<b>(282,503)</b>	<b>171,030</b>
Income tax expense	-	-	-	(36,749)	(36,749)
<b>Net profit for the year</b>	<b>194,843</b>	<b>213,472</b>	<b>45,218</b>	<b>(319,252)</b>	<b>134,281</b>

Asset and liabilities as of December 31, 2009	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<b>Assets</b>					
Capital expenditures	-	-	-	44,063	44,063
Property and equipment	-	-	-	6,577	6,577
Other intangible assets	-	-	-	-	-
<b>Total assets</b>	<b>2,004,585</b>	<b>2,901,781</b>	<b>1,520,268</b>	<b>388,263</b>	<b>6,814,897</b>
<b>Total liabilities</b>	<b>3,767,615</b>	<b>1,602,384</b>	<b>389,912</b>	<b>237,505</b>	<b>5,997,416</b>

4. Cash and balances with banks

	2010	2009
Cash on hand	121,619	58,161
Balances with the Central Bank	294,145	180,929
<b>Cash and balances with the Central Bank</b>	<b>415,764</b>	<b>239,090</b>
Balances with foreign banks	552,554	512,128
Balances with domestic banks	376,266	384,770
Current accounts in participation banks	5,093	6,421
<b>Balances with other banks and financial institutions</b>	<b>933,913</b>	<b>903,319</b>
<b>Cash and cash equivalents</b>	<b>1,349,677</b>	<b>1,142,409</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 4. Cash and balances with banks (continued)

As of December 31, 2010 and 2009, "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:

	2010				2009			
	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	302,531	150,488	6.90%	0.63%	104,000	249,515	6.84%	0.32%
<b>Total</b>	<b>302,531</b>	<b>150,488</b>			<b>104,000</b>	<b>249,515</b>		

#### 5. Reserve deposits at the central bank of Turkey

	2010		2009	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US\$	213,122,227	329,487	143,915,787	216,694
TL	-	357	-	1,995
		<b>329,844</b>		<b>218,689</b>

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 rate is %6 in Turkish Lira and 11% in foreign currency.

In accordance with the "Communiqué Regarding Change in the Communiqué Regarding the Reserve Requirements" published in the Official Gazette dated 23 September 2010 No. 27708 interest payments over the TL reserve requirements have been annulled. As of December 31, 2010, the interest rate applied for Turkish Lira reserve deposits is nil (December 31, 2009 – 5.20%).

#### 6. Financial assets

##### Available-for-sale

	2010	2009
<u>At cost</u>		
Unlisted shares (*)	4,520	4,520
<b>Total available-for-sale financial assets</b>	<b>4,520</b>	<b>4,520</b>

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

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**6. Financial assets (continued)**

	Nature of business	%	2010		2009	
			Amount	%	Amount	
Islamic International Rating Agency (IRA)	Financial information	8.99	714	8.99	714	
Neova Sigorta A.Ş.	Insurance	6.99	1,806	6.99	1,806	
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.67	2,000	1.67	2,000	
			<b>4,520</b>		<b>4,520</b>	

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

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

**Held to maturity**

Sukuk investment amounting to TL 7,529 that was invested by the Bahrain branch of the Bank has matured in February 2010 (December 31, 2009 – TL 7,529).

**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 4,231 (December 31, 2009 – TL 27) respectively.

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

Financial investments	2010			2009		
	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	7,529	27	1,389	7,583	64
Exchange differences	-	-	-	-	(54)	-
Additions (*)	-	-	4,231	3,131	-	27
Disposals (sale and redemption)	-	(7,529)	-	-	-	(64)
Fair value movement	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
<b>Balance at the end of the year</b>	<b>4,520</b>	<b>-</b>	<b>4,258</b>	<b>4,520</b>	<b>7,529</b>	<b>27</b>

(\*) The Group has established Type B Gold fund listed in ISE and classified it under held for trading as of December 31, 2010.

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

(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, 2010 are given in the table below:

<b>Current period</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Financial assets</b>				
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
<b>Financial liabilities</b>				
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	-	-	-	-
<b>Prior period</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets held for trading	-	9,925	-	9,925
Forward transactions	-	1,425	-	1,425
Swap transactions	-	8,500	-	8,500
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	6,231	-	6,231
Forward transactions	-	4,659	-	4,659
Swap transactions	-	1,572	-	1,572
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 7. Investment in associate

The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL 2,450 and recognized gain of TL 5,392. The remaining 49% of its shares have been classified under the investment in an associate in the prior year's financial statements. On June 6, 2010, the Group bought back 51 per cent of the outstanding ordinary shares of Körfez, and obtained full control of Körfez because there are legal issues with local municipality related with land of Kartal shopping mall and residence project, which prevented the construction to begin, and the Group has accepted to buy Körfez back. 49% of the loss which is incurred from Körfez until the date of the acquisition had been recognized as share profit of an associate in the statement of comprehensive income. Starting from June 6, 2010, the Group commenced to fully consolidate Körfez (Note 14, Business Combinations).

	2010 (*)	2009
Share of the associate's statement of financial position:		
Current assets	7,300	5,588
Non-current assets	43,993	18,322
Current liabilities	(5,207)	(1,624)
Non-current liabilities	(21,321)	(9,971)
<b>Equity</b>	<b>24,765</b>	<b>12,315</b>
	2010 (*)	2009
Income	114	544
Expense	(603)	(514)
<b>Net income/(loss)</b>	<b>(489)</b>	<b>30</b>

(\*) Until the date of acquisition of the full control.

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**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**8. Due from financing activities, net**

	<b>2010</b>	2009
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	<b>3,896,841</b>	2,695,133
Funds invested from current accounts and equity	<b>2,789,516</b>	1,653,503
Income accruals on due from financing activities (*)	<b>127,189</b>	115,271
	<b>6,813,546</b>	4,463,907
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	<b>141,148</b>	178,259
Funds invested from current accounts and equity	<b>116,455</b>	126,770
	<b>257,603</b>	305,029
<b>Total</b>	<b>7,071,149</b>	4,768,936
<b>Impairment allowance</b>		
Funds invested from profit / loss sharing accounts	<b>(111,102)</b>	(92,115)
Funds invested from current accounts and equity	<b>(91,110)</b>	(90,035)
	<b>(202,212)</b>	(182,150)
<b>Total due from financing activities</b>	<b>6,868,937</b>	4,586,786

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

For the year ended December 31, 2010 the Bank took possession of collateral (lands and buildings) from customers amounting to TL 35,247 (December 31, 2009 - TL 19,804), 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:

	<b>2010</b>	2009
Balance at the beginning of the year	<b>182,150</b>	157,668
Provisions - participation accounts	<b>36,206</b>	51,613
Provisions – bank	<b>59,597</b>	64,164
Recoveries of amounts previously provided for	<b>(50,557)</b>	(14,279)
Reserves written off in current year (*)	<b>(25,184)</b>	(77,016)
<b>Balance at the end of the year</b>	<b>202,212</b>	182,150

(\*) In 2010, non-performing loans for which a 100% provision was made in prior periods amounting in total to TL 25,184 were written off (2009 – TL 77,016).

The impairment allowance of TL 202,212 (December 31, 2009 – TL 182,150) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**8. Due from financing activities, net (continued)**

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

	2010	2009
Balance at beginning of year	20,919	19,469
Provisions – bank	1,627	3,636
Provisions - participation accounts	(2,252)	(2,186)
<b>Allowance at the end of the year</b>	<b>20,294</b>	<b>20,919</b>

**9. Minimum finance lease payments receivable, net**

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

	2010	2009
Gross investment in finance leases	98,725	55,403
Unearned finance income	(14,964)	(5,417)
Total impaired receivables	8,111	4,809
Impairment allowance	(4,399)	(1,283)
<b>Minimum lease payments receivable, net</b>	<b>87,473</b>	<b>53,512</b>

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

	2010	2009
Balance at 1 January	1,283	6,074
Provisions - participation accounts	3,365	2,164
Provisions - Bank	2,834	657
Recoveries of amounts previously provided for	(3,083)	(4,428)
Impairment allowance written off in current year	-	(3,184)
<b>Balance at the end of the year</b>	<b>4,399</b>	<b>1,283</b>

Gross investment in finance leases as to their maturity:

	2010	2009
Not later than 1 year (*)	56,663	37,224
Later than 1 year and not later than 5 years	48,432	22,973
Later than 5 years	1,741	15
<b>Minimum lease payments receivable, gross</b>	<b>106,836</b>	<b>60,212</b>
<b>Less : Unearned finance income</b>	<b>(14,964)</b>	<b>(5,417)</b>
Net investment in finance leases	91,872	54,795
Less : Allowance for impairment	(4,399)	(1,283)
<b>Minimum lease payments receivable, net</b>	<b>87,473</b>	<b>53,512</b>

(\*) includes total impaired receivables amounting to TL 8,111 (December 31, 2009 – TL 4,809).

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries****Notes to consolidated financial statements (continued)****December 31, 2010**

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

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

As of December 31, 2010 TL 57,264 (December 31, 2009 - TL 48,103) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2010	2009
Not later than 1 year (*)	50,745	34,775
Later than 1 year and not later than 5 years	39,684	20,007
Later than 5 years	1,443	13
<b>Net investment in finance leases</b>	<b>91,872</b>	<b>54,795</b>

(\*) includes total impaired receivables amounting to TL 8,111 (December 31, 2009 – TL 4,809).

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

**10. Other assets**

Other assets comprise the following:

	2010	2009
Clearing accounts	80,904	58,833
Receivables from precious metals transactions	40,596	7,647
Blockage for letter of guarantee (*)	17,443	100,290
Prepaid expenses	5,744	2,862
Value added tax (VAT) receivable	2,964	904
Receivable from assets sold	1,890	1,827
Receivables from Banking Operations	1,543	840
Other	13,920	7,164
	<b>165,004</b>	<b>180,367</b>

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

**11. Construction projects, net**

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

	2010	2009
Completed construction projects (inventories)	13,281	13,139
Receivables from construction projects	-	218
	<b>13,281</b>	<b>13,357</b>
(Less) Reserve for net realizable value	(10,114)	(10,114)
(Less) Reserve for doubtful receivables	-	(218)
<b>Total construction projects, net</b>	<b>3,167</b>	<b>3,025</b>



Notes to consolidated financial statements (continued)

December 31, 2010

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**12. Investment properties, net**

	2010	2009
Balance at the beginning of the year	47,207	67,586
Additions	35,247	12,674
Disposal	(29,586)	(27,199)
Depreciation charge	(907)	(950)
Transfer from assets held for resale (Note 13)	5,504	6,739
Addition from purchase of Körfez Gayrimenkul (Note 14)	16,699	-
Reversal / (Charge) of Provisions for Investment Property	(175)	(1,259)
Transfer to assets held for resale (Note 13)	(18,014)	(10,384)
<b>Balance at the end of the year</b>	<b>55,975</b>	<b>47,207</b>
Cost	62,084	52,277
Accumulated depreciation	(4,531)	(3,667)
Accumulated impairment	(1,578)	(1,403)
<b>Net carrying amount</b>	<b>55,975</b>	<b>47,207</b>

Fair value of the investment properties is TL 75,649 (December 31, 2009 - TL 60,843) which is determined based on the valuations performed by independent qualified valuers on December 2010.

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

**13. Assets and a disposal group held for sale**

At December 31, 2010, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 16,278 (December 31, 2009 – TL 7,130), 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:

	2010	2009
Balance at the beginning of the year	9,547	6,410
Additions	16,278	7,130
Transfer from investment property (Note 12)	18,014	10,384
Transfer to investment property (Note 12)	(5,504)	(6,739)
Disposal	(12,092)	(7,628)
Impairment	(228)	(10)
<b>Balance at the end of the year</b>	<b>26,015</b>	<b>9,547</b>

Gain on sale of assets held for sale amounting to TL 9,767 is included in other income in the income statement (December 31, 2009 – TL 1,786).

The partially disposal of Körfez Gayrimenkul had been finalized on November, 2009 and the Group signed a sales contract with Hayat Investment Company with respect to the sale of 51% shares of Körfez Gayrimenkul. In June 2010 the Bank has re-purchased Körfez Gayrimenkul and consolidated in its financial statement (Note 14).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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#### 14. Business combinations

The Bank had signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 to transfer 51% of the shares of Körfez in exchange for USD 10,613,000 and TL 2,450. The remaining 49% of its shares had been classified under investments in an associate in the previous year's financial statements.

On 6 June 2010, the Group bought back 51 per cent of the outstanding ordinary shares of Körfez because there are legal issues with local municipality related with land of Kartal shopping mall and residence project, which prevented the construction to begin and the Group has accepted to buy Körfez back, accordingly obtained full control of Körfez by having 100 percent shareholding. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The goodwill of TL 6,619 arising from the acquisition 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.

The provisional fair value of the identifiable assets and liabilities of Körfez as at the date of the acquisition was:

	Fair value recognized on acquisition
<b>Assets</b>	
Property, plant & equipment-net	21,368
Investment property	16,699
Other non-current assets	3,754
Other current assets	6,254
Cash & due from banks	841
Inventory	204
	49,120
<b>Liabilities</b>	
Long Term Bank Borrowings	21,184
Due to related parties	2,955
Other current liabilities	75
Provision for employee termination benefits	61
	24,275
Total identifiable net assets at fair value for 100% of the shares	24,845
Less: previously acquired non-controlling shares at fair value	(12,174)
Goodwill arising on acquisition	6,619
	19,290
Purchase consideration transferred(*)	19,290
Goodwill arising on acquisition	6,619
Impairment (-)	(6,619)
	-
<b>Balance at the end of the period</b>	<b>-</b>

(\*) The Group has paid USD 10,572,000 (16,840 TL) in cash and cancelled its receivable from Hayat Investment which arose from sale of 51% shares of Körfez amounting to TL 2,450.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 14. Business combinations (continued)

Analysis of cash flows on acquisition

Net cash acquired with the subsidiary	841
Cash Paid	16,840
<b>Net Cash Outflow</b>	<b>(15,999)</b>

The fair value of property plant and equipment amounts to TL 21,368. The gross amount is TL 19,816 and the fair value difference results from valuation prices prepared by independent real estate valuation firm.

Transaction costs amounting to USD 41,000 has been paid by Hayat Investment.

Income statement of Körfez for the mentioned periods are as follows;

	01.01.2010 – 31.12.2010	01.07.2010 – 31.12.2010
Income	1,515	1,282
Expense	(2,392)	(1,161)
Net Income	(877)	121

#### 15. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2009, net of accumulated depreciation and impairment	38,566	29,808	15,331	389	56	84,150
Additions	17,155	19,745	6,873	290	-	44,063
Disposals	-	(3,684)	(251)	-	-	(3,935)
Depreciation charge for the year	(1,060)	(6,709)	(8,210)	(119)	-	(16,098)
<b>At December 31, 2009, net of accumulated depreciation and impairment</b>	<b>54,661</b>	<b>39,160</b>	<b>13,743</b>	<b>560</b>	<b>56</b>	<b>108,180</b>
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)
<b>At December 31, 2010, net of accumulated depreciation and impairment</b>	<b>74,966</b>	<b>46,642</b>	<b>14,978</b>	<b>404</b>	<b>56</b>	<b>137,046</b>

(\*) TL 1,901 (net) and TL 3,731 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2010 and 2009, respectively. There is no property and equipment that are pledged for borrowings.

(\*\*) Includes TL 21,368 land and building and TL 11 office equipment addition from acquisition of Körfez.

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**15. Property and equipment, net (continued)**

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
<b>At December 31, 2009</b>						
Cost	62,015	79,152	39,230	3,088	56	183,541
Accumulated depreciation	(6,691)	(39,992)	(25,487)	(2,528)	-	(74,698)
Accumulated impairment	(663)	-	-	-	-	(663)
<b>Net carrying amount</b>	<b>54,661</b>	<b>39,160</b>	<b>13,743</b>	<b>560</b>	<b>56</b>	<b>108,180</b>
<b>At December 31, 2010</b>						
Cost	83,390	94,544	47,092	3,091	56	228,173
Accumulated depreciation	(7,762)	(47,902)	(32,115)	(2,685)	-	(90,464)
Accumulated impairment	(663)	-	-	-	-	(663)
<b>Net carrying amount</b>	<b>74,965</b>	<b>46,642</b>	<b>14,977</b>	<b>406</b>	<b>56</b>	<b>137,046</b>

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2010 and 2009 is as follows:

	2010	2009
Motor vehicles	58	58
Leasehold improvements	8,753	6,729
Furniture and office equipment	7,133	3,876
	<b>15,944</b>	<b>10,663</b>

**16. Intangible assets, net**

	Software
At January 1, 2009	2,847
Additions	6,577
Disposals	-
Amortization charge for the year	(1,168)
<b>At December 31, 2009, net of accumulated amortization</b>	<b>8,256</b>
Additions	7,722
Disposals	(26)
Amortization charge for the year	(2,794)
<b>At December 31, 2010, net of accumulated amortization</b>	<b>13,158</b>
<b>At December 31, 2009</b>	
Cost (gross carrying amount)	14,896
Accumulated amortization	(6,640)
<b>Net carrying amount</b>	<b>8,256</b>
<b>At December 31, 2010</b>	
Cost (gross carrying amount)	22,629
Accumulated amortization	(9,471)
<b>Net carrying amount</b>	<b>13,158</b>

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**17. Due to other financial institutions and banks and Sukuk Securities issued**

Due to other financial institutions and banks as of December 31, 2010 and 2009 is as follows ;

<b>Original foreign currency</b>	<b>Amount in TL</b>	
	<b>2010</b>	<b>2009</b>
<b>US\$</b>	<b>472,542</b>	<b>383,681</b>
<b>Euro</b>	<b>10,355</b>	<b>-</b>
<b>Other</b>	<b>75</b>	<b>-</b>
<b>Total</b>	<b>482,972</b>	<b>383,681</b>

As of December 31, 2010 borrowings remaining maturities of which is less than 12 months amount to TL 482,972 (As of December 31, 2009 – TL 378,385).

Sukuk securities as of December 31, 2010 and 2009 is as follows ;

<b>Original foreign currency</b>	<b>Amount in TL</b>	
	<b>2010</b>	<b>2009</b>
<b>Sukuk Issued</b>	<b>156,433</b>	<b>-</b>
<b>Total</b>	<b>156,433</b>	<b>-</b>

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

**18. Current and profit / loss sharing investors' accounts**

	<b>2010</b>	<b>2009</b>
<b>Current accounts:</b>		
Turkish lira	<b>1,066,562</b>	<b>748,450</b>
Foreign currency	<b>685,119</b>	<b>552,542</b>
	<b>1,751,681</b>	<b>1,300,992</b>
<b>Profit/loss sharing investors' accounts:</b>		
Turkish lira	<b>3,412,531</b>	<b>2,297,791</b>
Foreign currency	<b>2,242,936</b>	<b>1,820,352</b>
	<b>5,655,467</b>	<b>4,118,143</b>
<b>Blocked accounts:</b>		
Turkish lira	<b>20,632</b>	<b>23,404</b>
Foreign currency	<b>9,761</b>	<b>70,831</b>
	<b>30,393</b>	<b>94,235</b>
<b>Total current accounts and profit/loss investors' accounts</b>	<b>7,437,541</b>	<b>5,513,370</b>
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>41,743</b>	<b>31,831</b>
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>7,479,284</b>	<b>5,545,201</b>

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**18. 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:

	2010 (in TL)			2009 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	3,196,630	1,714,583	4,911,213	2,146,768	1,648,789	3,795,557
From 1 month to 3 months	703,948	746,514	1,450,462	443,977	442,940	886,917
From 3 months to 1 year	123,207	201,311	324,518	83,290	54,239	137,529
Over one year	475,940	275,408	751,348	395,610	297,757	693,367
	<b>4,499,725</b>	<b>2,937,816</b>	<b>7,437,541</b>	<b>3,069,645</b>	<b>2,443,725</b>	<b>5,513,370</b>

At December 31, 2010 and 2009, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2010		2009	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
<b>Current and blocked accounts:</b>				
US\$	256,974,774	397,283	256,008,997	385,473
Euro	83,614,270	171,334	80,301,458	173,475
Precious metals		124,032		58,207
Other		2,231		6,218
		<b>694,880</b>		<b>623,373</b>
<b>Profit/loss sharing investors' accounts:</b>				
US\$	1,954,070,352	1,318,536	685,807,862	1,032,621
Euro	1,244,337,121	576,002	310,106,481	669,923
Precious metals		348,398		117,808
		<b>2,242,936</b>		<b>1,820,352</b>
		<b>2,937,816</b>		<b>2,443,725</b>

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.

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**19. 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, 2010, and 2009 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.

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

With the decision dated at October 15, 2009 and numbered as 2006/95 – 2009/144 of the Constitutional Court, the phrase added to the end of the first paragraph of Article 69 of Law No. 193, "... only in the 2006, 2007 and 2008 years ..." and "2" figure in the second paragraph of Article 15 of Law No. 5479 has been canceled.

In this context, as described in the article of Serial No. 276 issued by the Ministry of Finance Income Tax General Communiqué 2.3 "Investments which have been newly started in accordance with the abolished 19th article of income tax law and investments performed between the dates of January 1, 2006 and April 8, 2006 will be subject to the investment incentive exception." Such investment incentives, after indexing the amounts to 2010, can be deducted from the income tax base regardless from the Company had earnings in the related periods. In accordance with the provisions of the Communiqué, the amount of investment incentive deducted from the tax base can no exceed 25% of the related income and remaining tax base is subject to the applicable tax rate effective for the period. Investment incentive amount deducted from the tax base is TL 6,937.

Investment incentive allowances which are subject to 19.8% withholding tax is TL 67,262 as of December 31, 2010. As the tax base, after usage of this incentive allowance, will be subject to 30% tax rate, the Group did not use this allowance at the end of 2008. In accordance with the fifth sentence of the communiqué, the Group have not used this investment at the end of 2010 and will not be able to use also in the future.

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.

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**19. Income taxes (continued)**

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.

	<b>2010</b>	2009
Current tax expense	<b>42,227</b>	34,902
Prepaid tax (-)	<b>36,564</b>	29,128
<b>Income taxes payable</b>	<b>5,663</b>	5,774
	<b>2010</b>	2009
Current tax expense	<b>(42,227)</b>	(34,902)
Deferred tax credit/(charge)	<b>651</b>	(1,847)
<b>Total income tax (charge)/credit</b>	<b>(41,576)</b>	(36,749)

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, 2010 and 2009 is as follows:

	<b>2010</b>	2009
Profit before income tax from continuing operations	<b>209,828</b>	166,975
Gain/(loss) before tax from a discontinued operation	-	4,055
<b>Profit before income tax</b>	<b>209,828</b>	171,030
At Turkish statutory income tax rate of 20%	<b>41,966</b>	34,206
Effect of change in tax rate	-	-
Effect of income not subject to tax	<b>(3,389)</b>	(1,841)
Effect of expenditure not allowable for income tax purposes	<b>3,008</b>	4,521
Effect of restatement pursuant to IAS 29 and other permanent differences	<b>(9)</b>	(137)
<b>Income tax charge</b>	<b>41,576</b>	36,749



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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**19. Income taxes (continued)**

Deferred income tax as of December 31, 2010 and 2009 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2010	2009
Due from financing activities	5,555	10,642
Reserve for employee termination benefits	1,416	952
Deferred income	12,283	758
Bonus accrual of personnel	602	3,825
Effect of other temporary differences	398	377
<b>Deferred tax assets</b>	<b>20,254</b>	<b>16,554</b>
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(3,033)	(2,525)
Accounting for finance leases	(574)	(542)
Derivative accrual	(2,836)	(738)
Effect of precious metals valuation	(411)	-
<b>Deferred tax liabilities</b>	<b>(6,854)</b>	<b>(3,805)</b>
<b>Deferred tax asset – net</b>	<b>13,400</b>	<b>12,749</b>

Movement of net deferred tax asset is:

	2010	2009
Balance at the beginning of the year	12,749	14,596
Deferred tax (charge)/credit recognized in income statement	651	(1,847)
<b>Balance at the end of the year</b>	<b>13,400</b>	<b>12,749</b>

**20. Other liabilities and provisions**

	2010	2009
Clearing accounts	99,501	-
Personnel bonus accrual	25,993	19,127
Withholding tax and other tax payables	17,007	12,168
Payables to exporters and suppliers	10,465	7,908
Deferred revenue	5,103	3,330
Security premium for participation funds	3,539	2,692
Rent payables	447	1,025
Deductions on resource utilization fund	933	576
Other	8,950	2,596
<b>Total other liabilities</b>	<b>171,938</b>	<b>49,422</b>
<b>Provisions</b>		
Employee termination benefits	7,080	4,780
Other provisions	829	2,327
<b>Total provisions</b>	<b>7,909</b>	<b>7,107</b>
<b>Total</b>	<b>179,847</b>	<b>56,529</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 20. Other liabilities and provisions (continued)

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

	2010	2009
Balance at January 1	4,780	3,806
Utilized/paid	(1,080)	(829)
Arising during the year	2,517	1,715
Actuarial loss	863	88
<b>Balance at the end of the year</b>	<b>7,080</b>	<b>4,780</b>

#### *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 2.5 and TL 2.3 at December 31, 2010 and 2009, 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, 2010 and 2009, 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:

	2010	2009
Discount rate (%)	10	11
Expected salary / ceiling increase rate (%)	5.4	4.8

#### 21. 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.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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#### 21. Derivative financial instruments (continued)

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, 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

December 31, 2009								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Inflows	9,925	-	880,092	840,738	10,340	29,014	-	-
Outflows	-	6,231	868,246	836,577	10,400	21,269	-	-
	9,925	6,231	1,748,338	1,677,315	20,740	50,283	-	-

#### 22. Share capital

	2010	2009
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	850.00 million	500.00 million

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

	2010		2009	
	Number	TL	Number	TL
At January 1	500,000,000	500,000	500,000,000	500,000
Shares issued in				
- bonus shares from retained earnings	50,000,000	50,000	-	-
- cash	300,000,000	300,000	-	-
At year end	850,000,000	850,000	500,000,000	500,000

The Bank has increased its share capital on March 14, 2010 and August 8, 2010. The share capital increase was funded from the retained earnings amounting to TL 50,000 and by cash payment of shareholders amounting to TL 300,000 respectively.

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 22. Share capital (continued)

As of December 31, 20010 and 2009, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2010		2009	
	Amount	%	Amount	%
Kuwait Finance House	528,993	62.2	311,173	62.2
Directorate of Vakıf Foundations, Turkey	159,113	18.7	93,596	18.7
The Public Institution for Social Security, Kuwait	76,500	9.0	45,000	9.0
Islamic Development Bank	76,500	9.0	45,000	9.0
Other	8,894	1.1	5,231	1.1
<b>Total share capital</b>	<b>850,000</b>	<b>100</b>	<b>500,000</b>	<b>100</b>

#### 23. Legal reserves, retained earnings, dividends paid and proposed

##### Legal reserves

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

##### Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 10,275 (2009 – TL 5,500).

	2010	2009
<b>Ordinary shares</b>		
Amount	10,275	5,500
TL (full) per share	0.021	0.011

#### 24. 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, 2010 and 2009.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 24. Earnings per share (continued)

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

	2010	2009
Net profit attributable to continuing operations of the Bank for basic earnings per share	168,252	130,226
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	4,055
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	168,252	134,281
Weighted average number of ordinary shares for basic earnings per share (thousands)	666,023	550,000
Basic earnings per share (expressed in full TL per share)	0.253	0.244
Basic earnings per share from continuing operations	0.253	0.237

#### 25. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2009 - 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, 2009 - 18.7%), 9.0% (December 31, 2009 - 9.0%) and 9.0% (December 31, 2009 - 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, 2010 and 2009 and transactions have been entered into with related parties during the years ended:

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

		2010		2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
KFH - Bahrain	Kuwaiti Dinar	1,260	7	5,343	28
	US\$	35,076,197	54,228	122,169	184
	BHD	15,580	64	19,271	77
Auto Land A.S.	TL		20,163		19,657
Other related parties			36,083		-
		110,545		19,946	

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

		2010		2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW	US\$	182,629,366	282,345	128,535,974	193,537
		282,345		193,537	

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2010

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

25. Related party disclosures (continued)

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

		2010		2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	51,488,984	79,602	26,210,417	39,465
Kuwait Finance House (1)	TL		2,632	-	2,632
Kuwait Finance House (1)	XAU	181,090	12,719	-	-
Islamic Development Bank (1)	US\$	41,005,617	63,395	23,535,012	35,437
Directorate of Vakıf Foundations, Turkey (1)	TL		2,621	-	3
Neova Sigorta AS (*)	US\$	666,070	1,030	7,663,881	11,538
	TL		5,687	-	-
Other related parties	TL		30,783	-	12,171
			198,469		101,246

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

iv) Profit shares distributed:

		2010		2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	35,158	54	45,054	68
Directorate of Vakıf Foundations, Turkey (1)	TL	99,426	99	-	-
Neova Sigorta AS (*)	US\$	205,612	318	535,299	806
	TL		152		
Public Institute for Social Securities KW	US\$	2,559,094	3,954	1,061,045	1,598
Other related parties	TL		703	-	612
			5,280		3,084

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

v) Non cash credits issued:

		2010		2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	203,316	314	74,719	111
Other related parties	TL		5,158	-	10,438
			5,472		10,549

(1) Shareholders.

As of December 31, 2010 no provisions have been recognized in respect of loans given to related parties (December 31, 2009 - nil).

Loans amounting to TL 186 have been issued to directors during the year ended December 31, 2010 (December 31, 2009 – TL 61).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 25. Related party disclosures (continued)

##### Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 6,058 during the year ended December 31, 2010 (December 31, 2009 – TL 5,678). As of December 31, 2010 the key management personnel did not receive any termination benefits (December 31, 2009 - TL nil).

The key management personnel of the Bank are as follows;

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

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

#### 26. Fees and commission income and expense

	2010	2009
<b>Fees and commission income</b>		
Commissions on loans	60,297	47,652
Commission income from commitments	45,138	45,120
Communication expense charges	17,691	20,102
POS commission income	10,631	13,399
Credit card fees and commissions	7,506	12,658
Import letter of credit commissions	4,926	5,543
Income from agency activities	3,241	511
Commissions from checks and notes	2,214	2,460
Other	13,240	9,991
<b>Total</b>	<b>164,884</b>	<b>157,436</b>
	2010	2009
<b>Fees and commission expense</b>		
Credit card machine and fees paid for credit cards	20,433	22,265
Brokerage fees on borrowings	2,160	3,611
ATM charges	48	25
Other	2,192	2,651
<b>Total</b>	<b>24,833</b>	<b>28,552</b>

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries****Notes to consolidated financial statements (continued)****December 31, 2010**

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

**27. Salaries and employee benefits**

	2010	2009
<b>Staff costs</b>		
Wages and salaries	94,440	81,513
Bonus	25,250	19,000
Other fringe benefits	16,034	12,987
Social security premiums	13,917	12,273
Health expenses	4,594	4,053
Provision for employee termination benefits	2,517	886
Other	6,151	3,585
<b>Total</b>	<b>162,903</b>	<b>134,297</b>

**28. Other expenses**

	2010	2009
Impairment on goodwill (Note 14)	6,619	-
Impairment on investment property (Note 12)	175	1,259
Impairment on asset held for sale (Note 13)	228	10
<b>Impairment charges</b>	<b>7,022</b>	<b>1,269</b>
Insurance fund premium expense	12,645	9,769
Communication	7,733	7,144
Repair and maintenance expenses	8,345	6,916
Advertising expenses	6,570	6,222
Professional fees	8,401	5,904
Non taxable income	2,729	4,049
Cleaning expense	4,784	3,753
Loss from sale of assets	313	3,707
Energy expenses	4,372	3,480
Travel and representation expenses	2,795	2,945
Insurance and subscription expenses	2,051	1,472
Stationery and publishing expenses	1,470	1,358
Insurance expenses	678	395
Computer usage expenses	329	299
Other	9,183	4,444
<b>Other expenses</b>	<b>72,398</b>	<b>61,857</b>
<b>Total</b>	<b>79,420</b>	<b>63,126</b>



## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 29. 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, 2010 and 2009:

	2010	2009
Letters of guarantee issued by the Bank	3,150,355	2,867,436
Letters of credit	535,890	426,991
Commitments	1,284,671	1,924,469
Acceptance credits	39,285	30,567
Other guarantees	4,678	5,637
<b>Total</b>	<b>5,014,879</b>	<b>5,255,100</b>

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

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

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

The Bank has TL 86,505, USD 10,805,019 (full), Euro 504,794 (full); total TL 97,815 (converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2010. The allocation of these obligations within lease periods as of December 31, 2010 and 2009 is as follows:

	2010	2009
Within one year	20,573	17,368
After one year but not more than five years	57,763	35,933
More than five years	19,479	4,294
<b>Total</b>	<b>97,815</b>	<b>57,595</b>

#### Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 1,428 and TL 1,042 as of December 31, 2010 and 2009 respectively. As of December 31, 2010, the amount of the checks and bonds in collection are TL 1,257,619 (December 31, 2009 – TL 965,756) and TL 271,256 (December 31, 2009 – TL 197,233) respectively.

### **30. 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.

### **30. Financial risk management (continued)**

#### **Board of directors**

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

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

#### **Audit committee**

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

#### **Risk management and treasury middle office department**

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

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

#### **Board of inspectors and internal audit**

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

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

### 30. 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.

<b>Gross maximum exposure</b>	<b>2010</b>	<b>2009</b>
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	<b>623,989</b>	401,883
Deposit with banks and financial institutions	<b>933,913</b>	903,319
Due from financing activities	<b>6,868,937</b>	4,586,786
Minimum financial lease payments receivable	<b>87,473</b>	53,512
Financial assets-held to maturity	-	7,529
Other assets	<b>155,400</b>	180,367
Derivative financial instruments	<b>28,480</b>	9,925
<b>Total</b>	<b>8,698,192</b>	6,143,321
Contingent liabilities	<b>3,686,245</b>	3,294,427
Other guarantees	<b>43,963</b>	36,204
Commitments	<b>1,284,671</b>	1,924,469
<b>Total</b>	<b>5,014,879</b>	5,255,100
<b>Total credit risk exposure</b>	<b>13,713,071</b>	11,398,421

#### 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, 2010 was TL 145,418 (December 31, 2009 - TL 89,956) and non cash credit exposure as of December 31, 2010 was TL 148,663 (December 31, 2009 - TL 144,788) before taking account of collateral or other credit enhancements.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

#### 30. 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:

	2010	2009
	Gross exposure	Gross exposure
Construction and materials	3,970,832	2,598,052
Financial services	3,063,621	3,302,596
Manufacturing	1,377,026	747,025
General retailers	2,071,096	836,214
Mining operations	515,067	535,504
Electricity	426,899	229,971
Telecommunications	25,301	215,597
Health care and social services	378,077	265,292
Forestry	93,984	70,614
Food and beverages	447,936	51,505
Real estate	22,572	28,455
Other	1,320,660	2,517,596
<b>Total</b>	<b>13,713,071</b>	<b>11,398,421</b>

#### Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

For retail lending, mortgages over residential properties.

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

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**30. 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.

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
<b>Total</b>	<b>1,923,094</b>	<b>6,005,085</b>	<b>210,100</b>	<b>-</b>	<b>5,390,912</b>	<b>13,529,191</b>

2009	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	401,613	903,319	-	-	-	1,304,932
Financing and leasing receivables	101,782	1,603,822	53,836	-	2,880,858	4,640,298
Corporate lending	99,342	1,580,945	53,319	-	1,072,181	2,805,787
Small business lending	2,043	18,415	450	-	462,484	483,392
Consumer lending	-	-	-	-	1,245,233	1,245,233
Credit cards	397	4,462	67	-	100,960	105,886
Contingent liabilities and other guarantees	270,845	1,620,451	50,850	-	1,388,485	3,330,631
Commitments	1,275,633	-	-	-	648,836	1,924,469
<b>Total</b>	<b>2,049,873</b>	<b>4,127,592</b>	<b>104,686</b>	<b>-</b>	<b>4,918,179</b>	<b>11,200,330</b>

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**30. Financial risk management (continued)**

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

<b>2010</b>	<b>Less than 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
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
<b>Total</b>	<b>188,078</b>	<b>65,306</b>	<b>38,121</b>	<b>-</b>	<b>291,505</b>

<b>2009</b>	<b>Less than 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
Due from financing activities:					
Corporate lending	88,568	19,483	16,449	-	124,500
Consumer lending	89,954	23,539	13,664	-	127,157
Small business lending	42,844	15,098	5,814	-	63,756
Credit cards	7,341	3,588	502	-	11,431
<b>Total</b>	<b>228,707</b>	<b>61,708</b>	<b>36,429</b>	<b>-</b>	<b>326,844</b>

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2010 and 2009 comprise of blocked accounts, property and machinery pledges.

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

	<b>2010</b>	<b>2009</b>
Due from financing activities:		
Corporate lending	330,745	384,742
Small business lending	18,394	-
Consumer	8,155	-
<b>Total renegotiated financial assets</b>	<b>357,294</b>	<b>384,742</b>

**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**

**Notes to consolidated financial statements (continued)**

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**30. 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, 2010

	<b>Less than 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>Assets</b>			
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
<b>Total assets</b>	<b>6,862,626</b>	<b>2,731,639</b>	<b>9,594,265</b>
<b>Liabilities</b>			
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
<b>Liabilities</b>	<b>7,578,224</b>	<b>740,275</b>	<b>8,318,499</b>
<b>Net</b>	<b>(715,598)</b>	<b>1,991,364</b>	<b>1,275,766</b>



Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements (continued)

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30. Financial risk management (continued)

Maturity analysis of assets and liabilities as of December 31, 2009.

	Less Than 12 months	Over 12 months	Total
<b>Assets</b>			
Cash and balances with the Central Bank	239,090	-	239,090
Balances with other banks and financial institutions	903,319	-	903,319
Reserve deposits at the Central Bank	218,689	-	218,689
Financial assets – held for trading	9,952	-	9,952
Derivative financial instruments	9,925	-	9,925
<i>Share Certificates</i>	27	-	27
Gold Fund	-	-	-
Financial assets – available-for-sale	4,520	-	4,520
Financial assets – held to maturity	7,529	-	7,529
Due from financing activities, net	3,382,242	1,204,544	4,586,786
Minimum finance lease payments receivable, net	33,492	20,020	53,512
Precious Metals	409,854	-	409,854
Other assets	180,367	-	180,367
Construction projects, net	-	3,025	3,025
Investment in associate	12,315	-	12,315
Investment properties, net	-	47,207	47,207
Property and equipment, net	-	108,180	108,180
Intangible assets, net	-	8,256	8,256
Deferred tax assets	-	12,749	12,749
Assets and a disposal group held for sale	9,547	-	9,547
<b>Total assets</b>	<b>5,410,916</b>	<b>1,403,981</b>	<b>6,814,897</b>
<b>Liabilities</b>			
Due to other financial institutions and banks	378,385	5,296	383,681
Sukuk securities issued	-	-	-
Current and profit / loss sharing investors' accounts	5,078,928	466,273	5,545,201
Derivative financial instruments	6,231	-	6,231
Other liabilities	49,422	-	49,422
Provisions	-	7,107	7,107
Income taxes payable	5,774	-	5,774
<b>Liabilities</b>	<b>5,518,740</b>	<b>478,676</b>	<b>5,997,416</b>
<b>Net</b>	<b>(107,824)</b>	<b>925,305</b>	<b>817,481</b>

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**30. 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
<b>As at December 31, 2010</b>						
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
Other financial liabilities	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>1,751,681</b>	<b>5,651,383</b>	<b>1,396,244</b>	<b>769,074</b>	<b>-</b>	<b>9,568,382</b>
<b>As at December 31, 2009</b>						
Due to other financial institutions and banks	-	79,952	303,216	5,654	-	388,822
Derivative financial instruments	-	846,977	21,269	-	-	868,246
Current accounts	1,300,992	-	-	-	-	1,300,992
Profit and loss sharing accounts	-	3,340,726	437,210	466,273	-	4,244,209
Other financial liabilities	-	1	2	-	-	3
<b>Total undiscounted financial liabilities</b>	<b>1,300,992</b>	<b>4,267,656</b>	<b>761,697</b>	<b>471,927</b>	<b>-</b>	<b>6,802,272</b>

(\*) 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
<b>December 31, 2010</b>						
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
<b>Total</b>	<b>2,090,608</b>	<b>657,537</b>	<b>909,108</b>	<b>1,170,194</b>	<b>187,441</b>	<b>5,014,888</b>
<b>December 31, 2009</b>						
Contingent liabilities and other guarantees	629,969	559,693	863,683	1,006,593	270,693	3,330,631
Commitments	1,924,469	-	-	-	-	1,924,469
<b>Total</b>	<b>2,554,438</b>	<b>559,693</b>	<b>863,683</b>	<b>1,006,593</b>	<b>270,693</b>	<b>5,255,100</b>

(\*)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".

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

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**30. Financial risk management (continued)**

**Market risk – Non-trading**

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

Precious metal	Increase/ decrease in metal price in %	December 31, 2010		Increase/ decrease in metal price in %	December 31, 2009	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Gold	+10	(429)		+10	5,478	-
Gold	-10	429		-10	(5,478)	-

**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	Increase/ decrease in currency rate in %	December 31, 2010		Increase/ decrease in currency rate in %	December 31, 2009	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
USD	+10	(1,453)	31	+10	(5,017)	-
USD	-10	1,453	(31)	-10	5,017	-
EUR	+10	875	-	+10	1,141	-
EUR	-10	(875)	-	-10	(1,141)	-

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**30. Financial risk management (continued)**

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

**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	-	-	-	-	3,167	3,167
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	-	-	136,860	137,046
Intangible assets, net	-	-	-	-	13,158	13,158
Deferred tax assets	-	-	-	-	13,400	13,400
<b>Total assets</b>	<b>788,482</b>	<b>2,702,382</b>	<b>39,366</b>	<b>508,855</b>	<b>5,555,180</b>	<b>9,594,265</b>
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
<b>Total liabilities and equity</b>	<b>798,117</b>	<b>2,311,319</b>	<b>13,661</b>	<b>472,638</b>	<b>5,998,530</b>	<b>9,594,265</b>
<b>Net balance sheet position</b>	<b>(9,635)</b>	<b>391,063</b>	<b>25,705</b>	<b>36,217</b>	<b>(443,350)</b>	<b>-</b>
<b>Net off-balance sheet position</b>	<b>18,381</b>	<b>(405,594)</b>	<b>(51,824)</b>	<b>(13,724)</b>	<b>452,761</b>	<b>-</b>

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

**Notes to consolidated financial statements (continued)**

**December 31, 2010**

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

**30. Financial risk management (continued)**

December 31, 2009

	EUR	USD	Other	Precious Metals	TL	Total
Cash and balances with the Central bank	8,685	14,152	777	-	215,476	239,090
Deposits with other banks and financial institutions	374,739	371,209	15,096	-	142,274	903,318
Reserve deposits at the Central Bank	-	216,694	-	-	1,995	218,689
Financial assets – available-for-sale	-	714	-	-	3,806	4,520
Financial assets – held for trading	-	-	-	-	27	27
Financial assets – held to maturity	-	7,529	-	-	-	7,529
Investment in an associate	-	-	-	-	12,315	12,315
Due from financing activities, net	493,378	1,465,610	-	-	2,627,798	4,586,786
Minimum finance lease payments receivable, net	10,860	14,309	-	-	28,343	53,512
Derivative financial instruments	245	1,165	-	-	8,515	9,925
Precious Metals	-	-	-	409,584	-	409,584
Other assets	-	-	-	-	180,637	180,637
Construction projects, net	-	-	-	-	3,025	3,025
Investment properties, net	-	-	-	-	47,207	47,207
Assets held for sale and disposal of group, net	-	-	-	-	9,547	9,547
Property and equipment, net	-	4	-	-	108,176	108,180
Intangible assets, net	-	-	-	-	8,256	8,256
Deferred tax assets	-	-	-	-	12,750	12,750
<b>Total assets</b>	<b>887,907</b>	<b>2,091,386</b>	<b>15,873</b>	<b>409,584</b>	<b>3,410,147</b>	<b>6,814,897</b>
Due to other financial institutions and banks	-	383,681	-	-	-	383,681
Current and profit / loss sharing investors' accounts	844,982	1,342,250	1,611	181,999	3,174,359	5,545,201
Other liabilities	4,159	21,588	246	-	23,429	49,422
Provisions	-	-	-	-	7,107	7,107
Income taxes payable	-	-	-	-	5,774	5,774
Derivative financial instruments	134	5,225	-	-	872	6,231
Liabilities directly associated with assets classified as held for sale, net	-	-	-	-	-	-
Equity	-	-	-	-	817,481	817,481
<b>Total liabilities and equity</b>	<b>849,275</b>	<b>1,752,744</b>	<b>1,857</b>	<b>181,999</b>	<b>4,029,022</b>	<b>6,814,897</b>
<b>Net balance sheet position</b>	<b>38,632</b>	<b>338,642</b>	<b>14,016</b>	<b>227,585</b>	<b>(618,875)</b>	<b>-</b>
<b>Net off-balance sheet position</b>	<b>(27,220)</b>	<b>(388,809)</b>	<b>(60,568)</b>	<b>(175,065)</b>	<b>651,662</b>	<b>-</b>

**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.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

### 30. 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, 2010 and 2009, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

#### Capital management

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

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

#### Regulatory capital

	2010	2009		
Tier 1 capital	1,221,964	785,364		
Tier 2 capital	43,047	32,100		
Deductions from capital	(2,382)	(21,715)		
<b>Total capital</b>	<b>1,262,629</b>	<b>795,749</b>		
Risk weighted assets amount subject to market and operational risk	7,406,214	5,465,599		
	<b>Actual</b>	<b>Required</b>	<b>Actual</b>	<b>Required</b>
Tier 1 capital ratio	16.48%		14.37%	-
Total capital ratio	17.05%	12%	14.56%	12%

### 31. 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 2010, the fair value of financing and leasing receivables has been estimated as TL 7,027,590 (December 31, 2009 – TL 4,646,986) whereas their carrying amount is TL 6,956,410 (December 31, 2009 – TL 4,665,232).

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### Notes to consolidated financial statements (continued)

December 31, 2010

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

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

Fair value of borrowings at amortized cost is estimated as TL 484,421 (December 31, 2009 – TL 384,891), whereas their carrying amount is TL 482,972 (December 31, 2009 – TL 383,681). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

Fair value of the Sukuk issued is estimated as TL 158,666 whereas their carrying amount is TL 156,433.

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.

#### 32. Subsequent events

- a. With the changes made in the “Communiqué Regarding the Reserve Requirements” on 17 December 2010 and 24 January 2011 the reserve requirement rates for TL liabilities are differentiated between 5% and 12% and funds obtained from repos except for the ones made with the Central Bank and domestic banks are included in the calculation basis.

TL Liabilities	Required reserve ratios (%)
Demand deposits, notice deposits and private current accounts	12
Deposits/participation accounts up to 1-month maturity (including 1-month)	10
Deposits/participation accounts up to 3-month maturity (including 3-month)	9
Deposits/participation accounts up to 6-month maturity (including 6-month)	7
Deposits/participation accounts up to 1-year maturity	6
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5
Liabilities other than deposits/participation funds	9
Special fund pools	Ratios for corresponding maturities

- b. According to the Board of Directors` meeting decision, numbered 1064, dated on January 4, 2011; it is decided to establish a subsidiary bank in Qatar.
- c. According to the Board of Directors` meeting decision, numbered 1073, dated on February 22, 2011; it is decided to raise capital from TL 850,000 to TL 950,000 from previous year's reserves.
- d. According to the Board of Directors` meeting decision, numbered 1076, dated on February 22, 2011; it is decided to establish a subsidiary bank in Germany.