

**Kuveyt Türk Katılım Bankası
Anonim Şirketi And Its Subsidiaries**

Consolidated Financial Statements
as at and for the Years Ended
December 31, 2012 and 2011

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Independent Auditor's Report

To the Board of Directors of
Kuveyt Türk Katılım Bankası A.Ş.
İstanbul

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi (the "Bank") and its subsidiaries together (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

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.



Other matters

The financial statements of the Group for the year ended December 31, 2011 have been audited by other auditors. The auditors expressed unqualified opinion at their audit report dated April 27, 2012.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul, April 15, 2013

DRT Bağımsız Denetim ve Şirketi A.Ş.

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of financial position as at December 31, 2012
(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2012	December 31, 2011
Assets			
Cash and balances with the Central Bank	4	478,136	521,315
Balances with other banks and financial institutions	4	1,585,434	1,273,122
Reserve deposits at the Central Bank	5	1,853,649	924,366
Financial assets – held for trading	6	61,811	87,247
<i>Derivative financial instruments</i>	19	39,189	74,865
<i>Share Certificates</i>		181	27
<i>Gold Fund</i>		22,441	12,355
Financial assets – available-for-sale	6	549,316	6,515
Due from financing activities, net	7	11,583,902	10,123,281
Minimum finance lease payments receivable, net	8	182,338	133,964
Precious metals		1,655,798	975,131
Construction projects, net	10	41,226	39,633
Investment properties, net	11	31,315	31,127
Property and equipment, net	13	209,388	142,475
Intangible assets, net	14	43,729	26,534
Deferred tax assets	17	25,520	38,439
Other assets	9	265,536	193,550
		18,567,098	14,516,699
Assets and a disposal group held for sale	12	28,951	23,962
Total assets		18,596,049	14,540,661
Liabilities and equity			
Due to other financial institutions and banks	15	2,347,811	1,524,923
Sukuk securities issued	15	811,540	867,927
Subordinated loans	15	361,661	386,681
Current and profit / loss sharing investors' accounts	16	12,867,190	10,030,822
Derivative financial instruments	19	7,393	38,265
Employee benefit obligations	18	39,802	37,550
Income taxes payable	17	15,694	3,683
Other liabilities	19	416,621	179,094
Total liabilities		16,867,712	13,068,945
Share capital	21	1,100,000	950,000
Share premium	21	23,250	23,250
Available for sale investments reserve, net of tax		13,208	-
Legal reserves and retained earnings	22	611,352	516,379
Currency translation differences		3,116	4,676
Other reserve	22	(22,589)	(22,589)
Total equity attributable to equity holders of the parent		1,728,337	1,471,716
Total liabilities and equity		18,596,049	14,540,661

The policies and explanatory notes are 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, 2012
(Currency – In thousands of Turkish Lira - TL)

	Notes	2012	2011
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		641,673	453,972
Profit on originated loans from current accounts and equity		516,823	400,412
Profit on deposits with other banks and financial institutions		12,368	20,570
Profit on finance leases		11,372	7,199
Total income from financing activities		1,182,236	882,153
Profit shares distributed to participation accounts		(475,914)	(379,500)
Profit shares distributed to other banks and financial institutions		(134,648)	(57,867)
Net financing income		571,674	444,786
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	(109,331)	(82,554)
Net financing income after provision for impairment in due from financing activities and lease receivables		462,343	362,232
Foreign exchange gain, net		82,526	99,150
Net financing income after net foreign exchange gain / (loss)		544,869	461,382
Fees and commission income	25	276,629	208,881
Income/(loss) from construction projects, net		(810)	1,164
Net trading income		21,119	643
Other income		33,888	25,671
Share of profit / (loss) of an associate		-	-
Total other operating income		330,826	236,359
Fees and commission expense	25	(56,111)	(36,068)
Staff costs	26	(262,892)	(209,387)
Depreciation and amortization expense		(32,633)	(26,664)
Withholdings and other taxes		(21,502)	(19,812)
Rent expense		(42,367)	(30,360)
Other expenses	27	(137,965)	(97,799)
Total other operating expense		(553,470)	(420,090)
Income before taxation		322,225	277,651
Current tax charge	17	(50,379)	(74,770)
Deferred tax (charge)/credit	17	(9,618)	25,039
Net income for the year from continuing operations		262,228	227,920
Net income/(loss) after tax for the year from a discontinued operation		-	-
Net income for the year		262,228	227,920
Other comprehensive income for the year		(1,560)	4,368
Exchange differences on translation of the foreign subsidiary		(1,560)	4,368
Available-for-sale investments reserve		13,208	-
Net change in fair value		16,509	-
Deferred tax relating to component of other comprehensive income		(3,301)	-
Total comprehensive income for the year		273,876	232,288
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)	23	0.238	0.207
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	23	0.238	0.207

The policies and explanatory notes are 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, 2012
(Currency – In thousands of Turkish Lira – TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	Available-for- sale investments reserve	Currency Translation Differences	Total
Balances at January 1, 2011	850,000	23,250	25,564	376,644	-	-	308	1,275,766
Share capital increase	100,000	-	-	(100,000)	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	9,357	(9,357)	-	-	-	-
Dividends paid	-	-	-	(13,749)	-	-	-	(13,749)
Total comprehensive income for the year	-	-	-	227,920	-	-	4,368	232,288
Other reserve	-	-	-	-	(22,589)	-	-	(22,589)
Balances at December 31, 2011	950,000	23,250	34,921	481,458	(22,589)	-	4,676	1,471,716
Share capital increase	150,000	-	-	(150,000)	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	11,482	(11,482)	-	-	-	-
Dividends paid	-	-	-	(17,255)	-	-	-	(17,255)
Total comprehensive income for the year	-	-	-	262,228	-	13,208	(1,560)	273,876
Other reserve	-	-	-	-	-	-	-	-
Balances at December 31, 2012	1,100,000	23,250	46,403	564,949	(22,589)	13,208	3,116	1,728,337

The accompanying policies and explanatory notes are 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, 2012
(Currency – In thousands of Turkish Lira - TL)

	Notes	2012	2011
Cash flows from operating activities:			
Income from continuing operations before taxation		322,225	277,651
Depreciation and amortization	11, 13, 14	32,633	26,664
Provision for employee termination benefits		4,057	6,065
Provision for personnel bonus accrual		28,000	27,500
Provision for impairment in due from financing activities and lease receivables	7, 8	109,331	82,554
Income accrual of funds invested		(10,661)	(334,619)
Reversal of impairment in construction projects and other assets	10	(6,964)	(7,448)
Deferred income		(11,436)	206,454
Expense accrual of participation accounts	16	4,283	(1,035)
Expense accrual of funds borrowed		(40,802)	121,915
Net change in derivative financial instruments	20	4,804	(22,420)
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		(20,609)	(16,668)
Operating income before changes in operating assets and liabilities		414,861	289,863
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(929,283)	(594,522)
Due from financing activities	7	(1,577,601)	(3,213,332)
Minimum finance lease payments receivables		(48,848)	(48,354)
Other assets and construction projects		57,069	(50,018)
Current accounts and profit/loss sharing investors' accounts	16	2,832,085	2,552,573
Other liabilities		272,178	11,776
Payment for employee termination benefits	18	(1,448)	(1,588)
Payment for personnel bonuses	18	(28,357)	25,136
Precious metals		(680,667)	(886,968)
Income taxes paid		(38,568)	(76,750)
Net cash used in operating activities		271,421	(1,965,706)
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(536,532)	(1,994)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	-	-
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(143,390)	(134,155)
Proceeds from sale of property and equipment, intangible assets and investment properties		34,409	105,759
Additions to assets and liabilities held for sale		-	(15,393)
Proceeds from sale of asset and liabilities held for sale	12	18,775	22,857
Net cash used in investing activities		(626,738)	(22,926)
Cash flows from financing activities:			
Dividends paid	21	(17,255)	(13,749)
Increase in due to financial institutions and banks		782,283	1,405,151
Sukuk securities issued		-	613,060
Increase in share capital		-	-
Net cash provided by financing activities		765,028	2,004,462
Net increase in cash and cash equivalents		422,893	15,830
Net foreign exchange difference on cash and cash equivalents		8,755	9,781
Cash and cash equivalents at the beginning of the year	4	1,375,288	1,349,677
Cash and cash equivalents at the end of the year	4	1,806,936	1,375,288

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2012
(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 April 15, 2013. 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, 2012, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 100% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects.

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

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

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

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

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

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

The consolidated financial statements are presented in Turkish Lira (“TL”) and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter (“OTC”) derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Changes in accounting policies

2.2.1 New and Revised IFRSs affecting presentation and disclosure only

None.

2.2.2 New and Revised IFRSs affecting the reported financial performance and / or financial position

None.

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

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendments to IFRS 7 did not have a significant effect on the Group’s disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

2. Summary of significant accounting policies (continued)

Amendments to IAS 12 *Deferred Taxes – Recovery of Underlying Assets*

The amendment is effective for annual periods beginning on or after January 1, 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The amendment did not have any effect on the financial statements.

2.2.4 New and Revised IFRSs in issue but not yet effective

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

Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i> ¹
Amendments to IAS 1	<i>Clarification of the Requirements for Comparative Information</i> ²
IFRS 9	<i>Financial Instruments</i> ⁵
IFRS 10	<i>Consolidated Financial Statements</i> ³
IFRS 11	<i>Joint Arrangements</i> ³
IFRS 12	<i>Disclosure of Interests in Other Entities</i> ³
IFRS 13	<i>Fair Value Measurement</i> ³
Amendments to IFRS 7	<i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ³
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i> ⁵
Amendments to IFRS 10, IFRS 11 and IFRS 12	<i>Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide</i> ³
IAS 19 (as revised in 2011)	<i>Employee Benefits</i> ³
IAS 27 (as revised in 2011)	<i>Separate Financial Statements</i> ³
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i> ³
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i> ⁴
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1</i> ³
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ³

¹ Effective for annual periods beginning on or after July 1, 2012.

² Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012.

³ Effective for annual periods beginning on or after January 1, 2013.

⁴ Effective for annual periods beginning on or after January 1, 2014.

⁵ Effective for annual periods beginning on or after January 1, 2015.

2. Summary of significant accounting policies (continued)

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* is effective for the annual periods beginning on or after July 1, 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 *Presentation of Financial Statements*

(as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012)

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after January 1, 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

2. Summary of significant accounting policies (continued)

The Group management anticipates that the application of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management anticipates that the application of these five standards may have a significant impact on amounts reported in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. Summary of significant accounting policies (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after January 1, 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 *Employee Benefits*

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

2. Summary of significant accounting policies (continued)

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation*.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's financial statements.

2. Summary of significant accounting policies (continued)

Significant accounting judgments and estimates

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

The judgments and estimates that may have a significant effect on amounts in the financial statements are discussed below:

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

Impairment of financial assets: There are judgments made by management during the estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets. Such estimations are disclosed in the relevant notes.

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

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

Fair value of financial instruments: Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

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, 2012 and 2011 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.

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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, 2012 and 2011 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, 2012 and 2011, 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 its subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2012	December 31, 2011
"Körfez Gayrimenkul"	Turkey	100%	100%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Dubai Limited"	Turkey	100%	100%
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	100%	100%

2. Summary of significant accounting policies (continued)

Foreign currency transactions

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, 2011	1.91	2.46
December 31, 2012	1.78	2.35

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 1.7924 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of other comprehensive income.

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.

Profit share earned while holding investment securities is reported as profit share income.

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

Embedded derivatives

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

Offsetting financial instruments

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

2. Summary of significant accounting policies (continued)

Derecognition of financial instruments

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

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.

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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.

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 for the year ended December 31, 2012
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2. Summary of significant accounting policies (continued)

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

Fiduciary assets

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

Related parties

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

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

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

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

Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

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.

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2. Summary of significant accounting policies (continued)

Reclassifications

The Group has classified TL 419,149 amount of precious metal, presented under “Precious metals”, to “Balances with other banks and financial institutions” account as of December 31, 2011 to be in line with the current period classification.

The Group has classified TL 7,128 amount of provision for non-cash loans, presented under “Due from financing activities, net”, to “Provisions” account as of December 31, 2011 to be in line with the current period classification.

The Group has also classified TL 37,550 amount of employee benefit obligations, presented under “Other liabilities”, to “Employee benefit obligations” account as of December 31, 2011 to be in line with the current period classification.

3. Segment information

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

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

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

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

The Bank’s operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank’s total revenue in 2012 or 2011.

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2012
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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, 2012 and 2011, respectively.

For the year ended December 31, 2012	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	188,689	819,731	(79,505)	-	928,915
Intersegment (*)	234,658	(184,372)	(50,286)	-	-
Total operating income	423,347	635,359	(129,791)	-	928,915
Credit loss expense	(74,991)	(34,254)	(86)	-	(109,331)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	348,356	601,105	(129,877)	-	819,584
Results					
Net profit share income/(expense)	129,249	561,788	(119,363)	-	571,674
Net fees and commission income	36,251	184,498	(231)	-	220,518
Net trading income	418	10,568	10,133	-	21,119
Segment profit/(loss)	165,918	756,854	(109,461)	(491,086)	322,225
Income tax expense	-	-	-	(59,997)	(59,997)
Net profit for the year	165,918	756,854	(109,461)	(551,083)	262,228
Asset and liabilities as of December 31, 2012					
Assets					
Capital expenditures	-	-	-	129,569	129,569
Property and equipment	-	-	-	45,055	45,055
Intangible assets	-	-	-	(46,567)	(46,567)
Depreciation and amortization	-	-	-	-	-
Total assets	4,005,148	7,876,452	6,169,158	545,291	18,596,049
Total liabilities	9,331,261	3,423,782	3,528,506	584,163	16,867,712

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

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3. Segment reporting (continued)

For the year ended December 31, 2011	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	226,962	532,392	9,277	-	768,631
Intersegment	220,841	(153,025)	(67,816)	-	-
Total operating income	447,803	379,367	(58,539)	-	768,631
Credit loss expense	(27,741)	(54,639)	(173)	-	(82,553)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	420,062	324,728	(58,712)	-	686,078
Results					
Net profit share income/(expense)	104,354	372,204	(31,772)	-	444,786
Net fees and commission income	70,388	108,747	(6,321)	-	172,814
Net trading income	1,195	7,289	(7,841)	-	643
Segment profit/(loss)	175,937	488,240	(45,934)	(340,592)	277,651
Income tax expense	-	-	-	(49,731)	(49,731)
Net profit for the year	175,937	488,240	(45,934)	(390,323)	227,920
Asset and liabilities as of					
December 31, 2011					
Assets					
Capital expenditures					
Property and equipment	-	-	-	131,625	131,625
Intangible assets	-	-	-	17,923	17,923
Depreciation and amortization	-	-	-	(60,246)	(60,246)
Total assets	3,452,310	6,932,193	3,767,139	374,763	14,540,661
Total liabilities	7,076,224	2,842,103	2,144,014	1,006,604	13,068,945

4. Cash and balances with banks

	December 31, 2012	December 31, 2011
Cash on hand	304,914	171,631
Balances with the Central Bank of Turkey	173,222	349,684
Cash and balances with the Central Bank of Turkey	478,136	521,315
Balances with banks and other financial institutions	1,585,434	1,273,122
Sub Total	2,063,570	1,794,437
Less: Interbank gold deposits	256,634	419,149
Total	1,806,936	1,375,288

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4. Cash and balances with banks (continued)

As of December 31, 2012 and 2011, “balances with other banks and financial institutions” are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	2012					2011		
	Amount		Effective profit rate			Amount		Effective profit rate
	TL	Foreign currency	TL	Foreign currency		TL	Foreign currency	TL
Deposits with other banks and financial institutions	250,734	382,290	5.32%	0.72%	-	299,872	-	1.38%
Total		632,024				299,872		

5. Reserve deposits at the Central Bank of Turkey

	2012		2011	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US\$	618,596,432	1,102,710	459,291,372	875,639
EUR	100,000,000	235,170	-	-
XAU	5,443,412	515,769	510,282	48,727
		1,853,649		924,366

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations. The required reserve rates are 11.5% up to 3-months maturity, 8.5% up to 6-month maturity, 6.5% up to 1-year maturity and 5% with 1-year or longer maturity in Turkish Lira and 12.5% up to 1-year maturity and 9% with 1-year or longer maturity in foreign currency.

Notes to consolidated financial statements for the year ended December 31, 2012
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6. Financial assets

Available-for-sale

	2012	2011
Unlisted shares (*)	8,257	6,515
Financial Sukuk (**)	541,059	-
Total available-for-sale financial assets	549,316	6,515

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

			2012		2011
	Nature of business	%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	8.99	714	8.99	714
Neova Sigorta A.Ş.	Insurance	6.99	3,332	6.99	2,801
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.67	4,211	1.67	3,000
			8,257		6,515

The Parent Bank has not made any contribution of payments which are capital commitment for Neova Sigorta A.Ş and Kredi Garanti Fonu A.Ş. during the current year, compared to payments in previous year amounted 995 and 1,000 respectively during March 2011 and July 2011.

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments. The Group does not intend to dispose its shares in IRA, Neova Sigorta A.Ş. and KGF. September 26, 2012, the Parent Bank invested in foreign currency rent certificate ("Sukuk") issued by TR Undersecretariat of the Treasury with an annual profit share of 2.8% semiannual profit share payment, maturity of 5.5 years amounting to USD 75,000,000.- (full amount) and on October 3, 2012, the Parent Bank invested in domestic currency rent certificate ("Sukuk") issued by TR Undersecretariat of the Treasury with an annual profit share of 7.4% semiannual profit share payment, maturity of 2 years amounting to TL 382,820,168.- (full amount). These investments are classified under "Financial assets – available-for-sale" in the accompanying financial statements as of the balance sheet date.

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 181 and TL 22,441 (December 31, 2011 – TL 27 and TL 12,355) respectively.

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

Financial investments	2012			2011		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	6,515	-	12,382	4,520	-	4,258
Exchange differences	-	-	-	-	-	-
Additions (*)	526,292	-	10,240	1,995	-	8,124
Disposals (sale and redemption)	-	-	-	-	-	-
Fair value movement	16,509	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance at the end of the year	549,316	-	22,622	6,515	-	12,382

(*) The Group has established Type B Gold fund listed in ISE and classified it under held for trading as of December 31, 2012.

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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, 2012 are given in the table below:

Current period	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	22,622	39,189	-	61,811
Forward transactions	-	25,591	-	25,591
Swap transactions	-	13,598	-	13,598
Other	22,622	-	-	22,622
Available for sale investments	541,059	-	-	541,059
Financial liabilities				
Financial liabilities held for trading	-	7,393	-	7,393
Forward transactions	-	5,132	-	5,132
Swap transactions	-	2,261	-	2,261
Prior period	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	12,382	74,865	-	87,247
Forward transactions	-	69,692	-	69,692
Swap transactions	-	5,173	-	5,173
Other	12,382	-	-	12,382
Financial liabilities				
Financial liabilities held for trading	-	38,265	-	38,265
Forward transactions	-	16,603	-	16,603
Swap transactions	-	21,662	-	21,662

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Notes to consolidated financial statements for the year ended December 31, 2012
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7. Due from financing activities, net

December 31, 2012	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	9,293,189	156,240	130,217	1,660,723	11,240,369
Past due not impaired	418,151	13,009	2,856	56,654	490,670
Impaired	313,138	14,564	4,032	5,631	337,365
Total gross loans	10,024,478	183,813	137,105	1,723,008	12,068,404
Less: Allowance for impairment on loans	(279,115)	(13,747)	(3,546)	(5,755)	(302,164)
Net loans (*)	9,745,363	170,066	133,559	1,717,253	11,766,240

December 31, 2011	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	7,994,393	354,058	81,364	1,466,567	9,896,382
Past due not impaired	320,031	8,096	938	30,436	359,501
Impaired	214,574	6,846	5,661	10,162	237,243
Total gross loans	8,528,998	369,000	87,963	1,507,165	10,493,126

Less: Allowance for impairment on loans	(215,070)	(6,464)	(4,983)	(9,364)	(235,881)
Net loans (*)	8,313,928	362,536	82,980	1,497,801	10,257,245

(*) Also includes minimum finance lease payment receivables.

	2012	2011
Performing		
Funds invested from profit/loss sharing accounts	6,347,839	4,431,386
Funds invested from current accounts and equity	5,003,446	5,218,806
Income accruals on due from financing activities (*)	197,919	472,820
	11,549,204	10,123,012
Funds in arrears		
Funds invested from profit / loss sharing accounts	137,447	98,857
Funds invested from current accounts and equity	197,320	132,299
	334,767	231,156
Total	11,883,971	10,354,168
Impairment allowance		
Funds invested from profit / loss sharing accounts	(111,592)	(83,350)
Funds invested from current accounts and equity	(188,477)	(147,537)
	(300,069)	(230,887)
Total due from financing activities	11,583,902	10,123,281

(*) Also includes foreign currency evaluation differences of foreign currency indexed loans.

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7. Due from financing activities, net (continued)

Movement in impairment allowance for funds disbursed is as follows :

	December 31, 2012	December 31, 2011
Balance at January 1,	230,887	197,077
Charge for the period	160,182	109,951
Charges for the profit/loss	104,845	78,759
Charge for the profit/loss sharing accounts	55,337	31,192
Recoveries of amounts previously provided for	(63,474)	(32,912)
Reserves written off in current year	(27,526)	(43,229)
Balance at the end of the year	300,069	230,887

The impairment allowance of TL 300,069 (December 31, 2011 – TL 230,887) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

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

	2012	2011
Balance at beginning of year	25,743	15,159
Provisions – bank	154	8,007
Provisions - participation accounts	2,809	2,577
Allowance at the end of the year	28,706	25,743

The movements in the non-cash collective reserve allowance for financing activities are as follows:

	2012	2011
Balance at beginning of year	7,128	5,135
Provisions – bank	4,013	1,993
Provisions - participation accounts	-	-
Allowance at the end of the year	11,141	7,128

The movement in specific allowance is as follows:

	2012	2011
Balance at the beginning of the year	205,144	181,918
Provisions - participation accounts	52,528	28,615
Provisions – bank	104,691	70,752
Recoveries of amounts previously provided for	(63,474)	(32,912)
Reserves written off in current year	(27,526)	(43,229)
Balance at the end of the year	271,363	205,144

The mentioned non-cash collective reserve is presented under “Due from financing activities, net” in the balance sheet.

The Bank’s share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is TL 57,563 (December 31, 2011 – TL 36,636).

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8. Minimum finance lease payments receivable, net

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

	2012	2011
Gross investment in finance leases	225,658	169,214
Unearned finance income	(43,822)	(36,342)
Total impaired receivables	2,597	6,087
Impairment allowance	(2,095)	(4,995)
Minimum lease payments receivable, net	182,338	133,964

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

	2012	2011
Balance at January 1	4,995	4,399
Charge for the period	513	3,416
Charges for the profit/loss	474	1,863
Charge for the profit/loss sharing accounts	39	1,553
Recoveries of amounts previously provided for	(1,254)	(217)
Impairment allowance written off in current period	(2,159)	(2,603)
Balance at the end of the period	2,095	4,995

Gross investment in finance leases as to their maturity:

	2012	2011
Not later than 1 year (*)	92,278	56,397
Later than 1 year and not later than 5 years	123,213	108,287
Later than 5 years	10,167	4,530
Non-performing receivables	2,597	6,087
Minimum lease payments receivable, gross	228,255	175,301
Less : Unearned finance income	(43,822)	(36,342)
Net investment in finance leases	184,433	138,959
Less : Allowance for impairment	(2,095)	(4,995)
Minimum lease payments receivable, net	182,338	133,964

(*) includes total impaired receivables amounting to TL 2,597 (December 31, 2011 – TL 6,087).

As of December 31, 2012 TL 179,832 (December 31, 2011 - TL 120,490) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2012	2011
Not later than 1 year (*)	74,930	49,264
Later than 1 year and not later than 5 years	100,109	85,897
Later than 5 years	9,394	3,798
Net investment in finance leases	184,433	138,959

(*) includes total impaired receivables amounting to TL 2,597 (December 31, 2011 – TL 6,087).

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

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9. Other assets

Other assets comprise the following:

	2012	2011
Clearing accounts	207,103	102,841
Prepaid expenses	27,160	16,541
Receivables from banking operations	8,104	4,050
Blockage for letter of guarantee	4,371	46,828
Receivables from precious metals transactions	816	8,309
Value added tax (VAT) receivable	-	2,812
Other	17,982	12,169
	265,536	193,550

10. Construction projects, net

Construction projects mainly include the Dumankaya Project and the Güre Premises (time sharing houses) which belong to the subsidiaries of the Bank, Körfez GYO and Körfez Tatil Beldesi, respectively.

	2012	2011
Uncompleted construction projects	37,898	33,800
Kartal Project		
Cost of land	34,209	30,625
Cost of project	2,192	1,678
Kilyos Land		
Cost of land	1,497	1,497
Completed construction projects (inventories)	10,292	13,281
	48,190	47,081
(Less) Reserve for net realizable value	(6,964)	(7,448)
Total construction projects, net	41,226	39,633

11. Investment properties, net

	2012	2011
Balance at the beginning of the year	31,127	55,975
Additions	13,653	8,891
Disposal	(17,354)	(29,772)
Depreciation charge	(474)	(895)
Transfer from assets held for resale (Note 12)	13,150	15,759
Reversal / (charge) of provisions for investment property	147	153
Transfer to assets held for resale (Note 12)	(8,934)	(18,984)
Balance at the end of the year	31,315	31,127
Cost	33,472	34,029
Accumulated depreciation	(1,336)	(1,620)
Accumulated impairment	(821)	(1,282)
Net carrying amount	31,315	31,127

Fair value of the investment properties is TL 82,273 (December 31, 2011 - TL 60,553) which is determined based on the valuations performed by independent qualified valuers on December 2012.

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.

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12. Assets and a disposal group held for sale

At December 31, 2012, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 22,092 (December 31, 2011 – TL 15,393), 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:

	2012	2011
Balance at the beginning of the year	23,962	26,015
Additions	22,092	15,393
Transfer from investment property (Note 11)	8,934	18,984
Transfer to investment property (Note 11)	(13,150)	(15,759)
Disposals	(12,855)	(20,639)
Impairment	(32)	(32)
Balance at the end of the year	28,951	23,962

Gain on sale of assets held for sale amounting to TL 5,918 is included in other income in the income statement (December 31, 2011 – TL 7,516).

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2010						
Cost	53,595	46,642	14,978	404	56	115,675
Additions	8,273	83,216	15,852	-	-	107,341
Disposals	(45,086)	(14,008)	(50)	-	(56)	(59,200)
Depreciation charge for the year	(101)	(20,096)	(1,010)	(134)	-	(21,341)
At December 31, 2011, net of accumulated depreciation and impairment	16,681	95,754	29,770	270	-	142,475
Additions(*)	39,046	20,573	34,197	8	-	93,824
Disposals	-	(2,415)	(9)	(11)	-	(2,435)
Depreciation charge for the year	(152)	(21,186)	(3,059)	(79)	-	(24,476)
At December 31, 2012, net of accumulated depreciation and impairment	55,575	92,726	60,899	188	-	209,388

(*) TL 472 and TL 766 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2012 and 2011, respectively. There is no property and equipment that are pledged for borrowings.

	Land and Buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2011						
Cost	22,157	161,217	38,314	877	-	222,565
Accumulated depreciation	(1,796)	(65,463)	(8,544)	(607)	-	(76,410)
Accumulated impairment	(3,680)	-	-	-	-	(3,680)
Net carrying amount	16,681	95,754	29,770	270	-	142,475
At December 31, 2012						
Cost	61,217	164,211	69,683	862	-	295,973
Accumulated depreciation	(1,949)	(71,485)	(8,784)	(674)	-	(82,892)
Accumulated impairment	(3,693)	-	-	-	-	(3,693)
Net carrying amount	55,575	92,726	60,899	188	-	209,388

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13. Property and equipment, net (continued)

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2012 and 2011 is as follows:

	2012	2011
Motor vehicles	516	105
Leasehold improvements	6,910	6,149
Furniture and office equipment	13,224	21,271
	20,650	27,525

14. Intangible assets, net

	Internal Generated Software	Other Software	Total
At January 1, 2011	10,455	2,703	13,158
Additions	10,375	7,548	17,923
Disposals	(119)	-	(119)
Amortization charge for the year	(4,206)	(222)	(4,428)
At December 31, 2011, net of accumulated amortization	16,505	10,029	26,534
Additions	35,441	9,614	45,055
Disposals	(20,177)	-	(20,177)
Amortization charge for the year	(6,033)	(1,650)	(7,683)
At December 31, 2012, net of accumulated amortization	25,736	17,993	43,729
At December 31, 2011			
Cost (gross carrying amount)	30,145	10,288	40,433
Accumulated amortization	(13,640)	(259)	(13,899)
Net carrying amount	16,505	10,029	26,534
At December 31, 2012			
Cost (gross carrying amount)	38,607	19,891	58,498
Accumulated amortization	(12,871)	(1,898)	(14,769)
Net carrying amount	25,736	17,993	43,729

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

Due to other financial institutions and banks as of December 31, 2012 and 2011 is as follows;

	Amount in TL	
Original currency	2012	2011
US\$	2,232,171	1,343,358
Euro	110,199	181,565
TL	5,441	-
Total	2,347,811	1,524,923

As of December 31, 2012 borrowings remaining maturities of which is less than 12 months amount to TL 1,975,231 (As of December 31, 2011 – TL 1,098,321).

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

Sukuk securities as of December 31, 2012 and 2011 is as follows;

	Amount in TL	
	2012	2011
Sukuk certificates issued	811,540	867,927
Total	811,540	867,927

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

Subordinated loans as of December 31, 2012 and 2011 is as follows;

	Amount in TL	
	2012	2011
Subordinated loan provided by Kuwait Finance House	361,661	386,681
Total	361,661	386,681

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

16. Current and profit / loss sharing investors' accounts

	2012	2011
Current accounts:		
Turkish lira	1,588,185	1,293,820
Foreign currency	1,756,595	1,574,363
	3,344,780	2,868,183
Profit/loss sharing investors' accounts:		
Turkish lira	5,182,740	3,893,509
Foreign currency	4,218,782	3,110,472
	9,401,522	7,003,981
Blocked accounts:		
Turkish lira	39,516	37,428
Foreign currency	45,008	80,522
	84,524	117,950
Total current accounts and profit/loss investors' accounts	12,830,826	9,990,114
Expense accrual on current accounts and profit/loss sharing investors' accounts	36,364	40,708
Total current accounts and profit/loss sharing investors' accounts	12,867,190	10,030,822

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Notes to consolidated financial statements for the year ended December 31, 2012**
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)**16. Current and profit / loss sharing investors' accounts (continued)**

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

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

	2012 (in TL)			2011 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	2,529,302	2,326,317	4,855,619	2,318,458	2,171,326	4,489,784
From 1 month to 3 months	3,224,829	3,058,698	6,283,527	1,882,653	2,046,451	3,929,104
From 3 months to 1 year	508,187	374,781	882,968	245,800	293,871	539,671
Over one year	548,123	260,589	808,712	777,844	253,711	1,031,555
	6,810,441	6,020,385	12,830,826	5,224,755	4,765,359	9,990,114

At December 31, 2012 and 2011, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2012		2011	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US\$	431,838,326	769,795	316,529,501	603,463
Euro	88,712,421	208,625	83,962,264	206,480
Precious metals		802,058		813,907
Other		21,125		31,037
		1,801,603		1,654,887
Profit/loss sharing investors' accounts:				
US\$	1,103,420,285	1,966,957	640,064,516	1,220,283
Euro	342,015,138	804,317	282,677,700	695,161
Precious metals		1,447,508		1,195,028
		4,218,782		3,110,472
		6,020,385		4,765,359

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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17. Income taxes

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

In Turkey, the corporation tax rate for the fiscal years ending on December 31, 2012, and 2011 is 20%. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2007 - 2012), 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.

	2012	2011
Current tax expense	50,379	74,770
Prepaid tax (-)	(34,685)	(71,087)
Income taxes payable	15,694	3,683
	2012	2011
Current tax expense	50,379	74,770
Deferred tax credit/(charge)	9,618	(25,039)
Total income tax (charge)/credit	59,997	49,731

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Notes to consolidated financial statements for the year ended December 31, 2012

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17. Income taxes (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2012 and 2011 is as follows:

	2012	2011
Profit before income tax	322,225	277,651
At Turkish statutory income tax rate of 20%	64,445	55,395
Effect of income not subject to tax	(8,228)	(9,657)
Effect of expenditure not allowable for income tax purposes	3,780	3,993
Income tax charge	59,997	49,731

Deferred tax as of December 31, 2012 and 2011 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2012	2011
Deferred income	18,442	16,712
Provision for impairment in due from financing activities	10,534	10,122
Bonus accrual of personnel	5,600	807
Effect of precious metals valuation	5,243	21,610
Impairment provision for subsidiaries, fixed assets and assets held for sale	3,162	1,703
Reserve for employee termination benefits	2,360	1,839
Effect of other temporary differences	251	1,135
Deferred tax assets	45,592	53,928
Derivative accrual	(11,452)	(6,020)
Provision for non cash loans	(5,382)	(4,741)
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(3,206)	(2,117)
Accounting for finance leases	(32)	(369)
Effect of precious metals valuation	-	(2,242)
Deferred tax liabilities	(20,072)	(15,489)
Deferred tax asset – net	25,520	38,439

Movement of net deferred tax asset is:

	2012	2011
Balance at the beginning of the year	38,439	13,400
Deferred tax (charge)/credit recognized in income statement	(9,618)	25,039
Deferred tax (charge)/credit recognized in equity	(3,301)	-
Balance at the end of the year	25,520	38,439
	2012	2011
Balance at the beginning of the year	38,439	13,400
Deferred tax (charge)/credit recognized in income statement	(9,618)	25,039
Deferred tax (charge)/credit recognized in equity	(3,301)	25,039
Balance at the end of the year	25,520	38,439
	2012	2011
Balance at the beginning of the year	38,439	13,400
Deferred tax (charge)/credit recognized in income statement	(9,618)	25,039
Deferred tax (charge)/credit recognized in equity	(3,301)	25,039
Balance at the end of the year	25,520	38,439

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18. Employee benefit obligations

	2012	2011
Personnel bonus accrual	28,000	28,357
Employee termination benefits	11,802	9,193
Total employee benefit obligations	39,802	37,550

The movement in reserve for personnel bonus accrual is as follows:

	2012	2011
Balance at January 1	28,357	25,993
Utilized/paid	(28,357)	(25,136)
Charge for the year	28,000	27,500
Balance at the end of the year	28,000	28,357

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

	2012	2011
Balance at January 1	9,193	7,080
Utilized/paid	(1,448)	(1,588)
Service cost	1,834	1,711
Interest cost	398	306
Actuarial loss	1,825	1,684
Balance at the end of the year	11,802	9,193

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 3.1 and TL 2.7 at December 31, 2012 and 2011, 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, 2012 and 2011, 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 amount payable consists of one month's salary limited to a maximum of TL 3.033,98 (2011: TL 2.731,85) for each period of service at 31 December 2012.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is rearranged every six months, is calculated over TL 3,129.35 that is effective commencing on January 1, 2013 (January 1, 2012: TL 2.917,27).

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

	2012	2011
Discount rate (%)	7.5	9.8
Expected salary / ceiling increase rate (%)	5	5.2
Anticipated turnover rate (%)	91.4	90.6

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19. Other liabilities and provisions

	2012	2011
Clearing accounts	324,855	103,284
Withholding tax and other tax payables	28,490	19,283
Payables to exporters and suppliers	7,645	10,954
Security premium for participation funds	5,685	4,549
Deferred revenue of non cash loans	1,027	625
Deductions on resource utilization fund	933	803
Other provisions	27,088	23,682
Other	20,898	15,914
Total other liabilities	416,621	179,094

20. Derivative financial instruments

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

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

The fair values of 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, 2012								
	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	39,189	-	2,909,881	1,228,393	814,381	398,660	152,770	315,677
Outflows	-	7,393	2,878,585	1,223,999	805,344	396,363	151,128	301,751
	39,189	7,393	5,788,466	2,452,392	1,619,725	795,023	303,898	617,428
December 31, 2011								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Inflows	74,865	-	3,013,964	1,673,473	809,691	432,053	98,747	-
Outflows	-	38,265	2,983,573	1,657,109	790,599	434,848	101,017	-
	74,865	38,265	5,997,537	3,330,582	1,600,290	866,901	199,764	-

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21. Share capital

	2012	2011
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	1,100.00 million	950.00 million

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

	2012		2011	
	Number	TL	Number	TL
At January 1	950,000,000	950,000	850,000,000	850,000
Shares issued in				
- bonus shares from retained earnings	150,000,000	150,000	100,000,000	100,000
At year end	1,100,000,000	1,100,000	950,000,000	950,000

The Bank has increased its share capital on April 19, 2012. The share capital increase was funded from the retained earnings amounting to TL 150,000 (2011: TL 100,000).

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

As of December 31, 2012 and 2011, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Kuwait Finance House	684,654	62.2	591,292	62.2
Directorate of Vakıf Foundations, Turkey	205,912	18.7	177,833	18.7
The Public Institution for Social Security, Kuwait	99,000	9.0	85,500	9.0
Islamic Development Bank	99,000	9.0	85,500	9.0
Other	11,434	1.1	9,875	1.1
Total share capital	1,100,000	100	950,000	100

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

Legal reserves

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

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 17,255 (2011 – TL 13,749) from the profit of the year 2011.

	2012	2011
Ordinary shares		
Amount	17,255	13,749
TL (full) per share	0.016	0.015

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

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

23. Earnings per share

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

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

There is no dilution of shares as of December 31, 2012 and 2011.

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

	2012	2011
Net profit attributable to continuing operations of the Bank for basic earnings per share	262,228	227,920
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	262,228	227,920
Weighted average number of ordinary shares for basic earnings per share (thousands)	1,100,000	1,100,000
Basic earnings per share (expressed in full TL per share)	0.238	0.207

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24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2011 - 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, 2011 - 18.7%), 9.0% (December 31, 2011 - 9.0%) and 9.0% (December 31, 2011 - 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, 2012 and 2011 and transactions have been entered into with related parties during the years ended:

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

		2012		2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	19,101	120	52,614	357
KFH – Bahrain	BHD	43,880	207	-	-
	US\$	155,635	278	371,858	709
Auto Land A.S.	TL	-	32,522	-	30,195
Other related parties	-	-	52,743	-	56,483
		85,870		87,744	

ii) Due to other financial institutions and banks:

		2012		2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities					
KW (1)	US\$	156,831,033	279,567	156,515,089	298,396
Kuwait Finance House (1)	US\$	706,311,567	1,259,071	101,564,025	193,632
Kuwait Finance Malaysia	US\$	50,274,879	89,620	127,172,717	242,455
Islamic Development Bank	US\$	10,774,711	19,207	39,415,171	75,145
		1,647,465		809,628	

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

		2012		2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	1,303,095	2,323	1,237,723	2,360
Kuwait Finance House (1)	TL	-	373	-	9,868
Kuwait Finance House (1)	KWD	-	-	11,000	74
Islamic Development Bank (1)	US\$	5,146	9	5,294	10
Islamic Development Bank (1)	TL	-	236	-	291
Kuwait Finance Malaysia	XAU (gr.)	940,275	89,963	907,440	86,652
Directorate of Vakıf Foundations, Turkey (1)	TL	-	10,355	-	6,056
Neova Sigorta AS (*)	TL	-	11,646	-	3,273
	US\$	11,946	21		
		114,926		108,584	

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

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24. Related party disclosures (continued)

iv) Profit shares distributed:

		2012		2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	47,538	85	36,822	62
Directorate of Vakıf Foundations, Turkey (1)	TL		831		463
Neova Sigorta AS (*)	US\$	923	2	22,278	34
	TL		393		467
Public Institute for Social Securities KW	US\$	5,226,703	9,317	5,018,357	9,567
			10,628		10,593

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

v) Non cash credits issued:

		2012		2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	7,058,040	12,582	156,063	298
Other related parties	TL		1,148		2,949
			13,730		3,247

(1) Shareholders.

As of December 31, 2012 no provisions have been recognized in respect of loans given to related parties (December 31, 2011 - nil).

Loans amounting to TL 336 have been issued to directors during the year ended December 31, 2012 (December 31, 2011 – TL 24).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 10,510 during the year ended December 31, 2012 (December 31, 2011 – TL 8,092)

The key management personnel of the Bank are as follows;

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

Key management includes 10 other officers together with the above B.O.D. members.

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25. Fees and commission income and expense

	2012	2011
Fees and commission income		
Commissions on loans	125,616	93,516
Commission income from commitments	61,590	51,622
Communication expense charges	24,698	20,889
POS commission income	22,078	13,099
Credit card fees and commissions	12,251	8,724
Income from agency activities	6,567	5,837
Import letter of credit commissions	5,007	4,451
Commissions from checks and notes	2,790	2,569
Other	16,032	8,174
Total	276,629	208,881

	2012	2011
Fees and commission expense		
Credit card machine and fees paid for credit cards	30,206	18,746
Brokerage fees on borrowings	10,975	7,750
ATM charges	40	76
Other	14,890	9,496
Total	56,111	36,068

26. Salaries and employee benefits

	2012	2011
Staff costs		
Wages and salaries	157,479	121,186
Bonus	28,000	28,761
Social security premiums	31,488	24,175
Other fringe benefits	25,296	19,057
Health expenses	7,664	6,059
Provision for employee termination benefits	1,448	3,701
Other	11,517	6,448
Total	262,892	209,387

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27. Other expenses

	2012	2011
Impairment on investment property (Note 11)	(147)	(153)
Impairment on asset held for sale (Note 12)	32	32
Impairment charges/(reversal)	(115)	(121)
Insurance fund premium expense	20,857	17,714
Professional fees	17,088	9,639
Repair and maintenance expenses	13,761	11,883
Advertising expenses	13,753	9,449
Communication	11,222	9,644
Cleaning expense	9,248	2,109
Energy expenses	6,281	5,171
Grants and donations	5,582	2,958
Stationery and publishing expenses	2,742	2,068
Non taxable income	2,554	2,503
Travel and representation expenses	1,399	1,816
Subscription and membership expenses	1,477	2,556
Insurance expenses	1,451	1,197
Loss from sale of assets	279	295
Other	30,386	18,918
Other expenses	138,080	97,920
Total	137,965	97,799

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28. 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, 2012 and 2011:

	2012	2011
Letters of guarantee issued by the Bank	5,208,667	4,355,974
Letters of credit	991,612	606,486
Commitments	1,433,114	1,252,073
Acceptance credits	86,812	59,492
Other guarantees	34,786	19,726
Total	7,754,991	6,293,751

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

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

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

The allocation of operational lease obligations due to rent agreements of branches within lease periods as of December 31, 2012 and 2011 is as follows:

	2012	2011
Within one year	-	-
After one year but not more than five years	48,926	120,050
More than five years	137,665	30,877
	185,961	150,927

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 37,442 and TL 4,162 as of December 31, 2012 and 2011 respectively. As of December 31, 2012, the amount of the checks and bonds in collection are TL 2,677,543 (December 31, 2011 – TL 2,392,255) and TL 286,374 (December 31, 2011 – TL 416,311) respectively.

29. Financial risk management

Introduction

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

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

Organization of the risk management function

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

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

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

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

Internal systems and risk management policies

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

29. Financial risk management (continued)

Board of directors

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

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

Audit committee

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

Risk management and treasury middle office department

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

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

Board of inspectors and internal audit

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

Notes to consolidated financial statements for the year ended December 31, 2012
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29. Financial risk management (continued)

Credit risk

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

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

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

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

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

Gross maximum exposure	2012	2011
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	2,026,871	1,274,050
Deposit with banks and financial institutions	1,585,434	1,273,122
Due from financing activities	11,583,902	10,123,281
Minimum financial lease payments receivable	182,338	133,964
Financial assets-available for sale	549,316	6,515
Financial assets-held for trading	22,622	12,382
Other assets	265,536	193,550
Derivative financial instruments	39,189	74,865
Total	16,255,208	13,091,729
Contingent liabilities	6,200,279	4,962,460
Other guarantees	100,172	79,218
Commitments	1,433,114	1,252,073
Total	7,733,565	6,293,751
Total credit risk exposure	23,988,773	19,385,480

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, 2012 was TL 110,068 (December 31, 2011 - TL 112,032) and non cash credit exposure as of December 31, 2012 was TL 189,008 (December 31, 2011 - TL 186,728) before taking account of collateral or other credit enhancements.

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29. Financial risk management (continued)

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

	2012	2011
	Gross exposure	Gross exposure
Construction and materials	5,638,472	5,471,892
Financial services	5,736,671	4,031,869
General retailers	3,318,663	3,197,382
Manufacturing	2,466,264	2,082,031
Health care and social services	826,899	523,285
Food and beverages	695,327	621,982
Electricity	456,316	582,733
Mining operations	298,036	307,620
Telecommunications	163,817	43,418
Forestry	115,567	110,595
Real estate	30,553	40,450
Other	4,242,188	2,372,223
Total	23,988,773	19,385,480

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

For retail lending, mortgages over residential properties.

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

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29. Financial risk management (continued)

Credit quality per class of financial assets

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

2012	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)	2,026,872	1,583,872	-	-	-	3,610,744
Financing and leasing receivables	2,052,391	5,362,899	2,640,751	-	1,844,491	11,900,432
Corporate lending	1,997,510	2,522,476	2,204,493	-	1,035,753	7,760,232
Small business lending	47,698	1,146,884	196,952	-	270,035	1,661,569
Consumer lending	-	1,662,663	226,858	-	453,003	2,342,524
Credit cards	7,183	30,876	12,448	-	85,700	136,207
Contingent liabilities and other guarantees	2,610,873	1,464,983	1,157,916	-	1,066,680	6,300,452
Commitments	346,218	-	-	-	1,260,053	1,606,271
Total	7,036,354	8,411,754	3,798,667	-	4,171,224	23,417,999

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

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29. Financial risk management (continued)

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

2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	40,406	33,232	49,142	-	122,780
Consumer lending	7,135	42,094	21,429	-	70,658
Small business lending	123,122	128,223	96,351	-	347,696
Credit cards	679	61	73	-	813
Total	171,342	203,610	166,995	-	541,947

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

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2012 and 2011 comprise of blocked accounts, property and machinery pledges.

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

	2012	2011
Due from financing activities:		
Corporate lending	125,734	252,398
Small business lending	167,836	65,651
Consumer	10,091	10,034
Total renegotiated financial assets	303,661	328,083

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.

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29. 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, 2012

31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	478,136	-	-	-	-	478,136
Balances with other banks and financial institutions	1,528,955	56,479	-	-	-	1,585,434
Reserve deposits at the Central Bank	1,853,649	-	-	-	-	1,853,649
Financial assets – held for trading	59,487	2,143	-	181	-	61,811
<i>Derivative financial instruments</i>	<i>37,046</i>	<i>2,143</i>	-	-	-	<i>39,189</i>
<i>Share Certificates</i>	-	-	-	<i>181</i>	-	<i>181</i>
<i>Gold Fund</i>	<i>22,441</i>	-	-	-	-	<i>22,441</i>
Financial assets – available-for-sale	-	-	404,984	136,076	8,256	549,316
Due from financing activities, net *	3,944,190	4,238,530	3,230,103	320,236	33,181	11,766,240
Precious metals	1,655,798	-	-	-	-	1,655,798
Other assets	-	-	-	-	265,536	265,536
Construction projects, net	-	-	-	-	41,226	41,226
Investment properties, net	-	-	31,315	-	-	31,315
Property and equipment, net	-	-	-	-	209,388	209,388
Intangible assets, net	-	-	-	-	43,729	43,729
Deferred tax assets	-	-	-	-	25,520	25,520
Assets and a disposal group held for sale	28,951	-	-	-	-	28,951
Total assets	9,549,166	4,297,152	3,666,402	456,493	626,836	18,596,049
Due to other financial institutions and banks	988,674	991,995	367,142	-	-	2,347,811
Sukuk securities issued	-	181,510	630,030	-	-	811,540
Subordinated Loans	-	-	-	361,661	-	361,661
Current and profit / loss sharing investors' accounts	11,303,958	1,069,254	381,831	-	112,147	12,867,190
Derivative financial instruments	6,306	1,087	-	-	-	7,393
Employee benefit obligations	-	28,000	-	-	11,802	39,802
Provisions	-	-	-	-	27,088	27,088
Income taxes payable	-	15,694	-	-	-	15,694
Other liabilities	-	-	99	-	389,434	389,533
Liabilities	12,298,938	2,259,540	1,379,102	361,661	568,471	16,867,712
Net	(2,749,772)	2,037,612	2,287,300	94,832	58,365	1,728,337

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29. Financial risk management (continued)

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

31 December 2011	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	521,315	-	-	-	-	521,315
Balances with other banks and financial institutions	1,273,122	-	-	-	-	1,273,122
Reserve deposits at the Central Bank	924,366	-	-	-	-	924,366
Financial assets – held for trading	77,057	10,163	-	27	-	87,247
<i>Derivative financial instruments</i>	64,702	10,163	-	-	-	74,865
<i>Share Certificates</i>	-	-	-	27	-	27
<i>Gold Fund</i>	12,355	-	-	-	-	12,355
Financial assets – available-for-sale	-	-	-	-	6,515	6,515
Due from financing activities, net *	3,005,776	3,902,627	3,062,325	255,803	30,714	10,257,245
Precious metals	975,131	-	-	-	-	975,131
Other assets	-	-	-	-	193,550	193,550
Construction projects, net	-	-	-	-	39,633	39,633
Investment properties, net	-	-	31,127	-	-	31,127
Property and equipment, net	-	-	-	-	142,475	142,475
Intangible assets, net	-	-	-	-	26,534	26,534
Deferred tax assets	-	-	-	-	38,439	38,439
Assets and a disposal group held for sale	23,962	-	-	-	-	23,962
Total assets	6,800,729	3,912,790	3,093,452	255,830	477,860	14,540,661
Liabilities						
Due to other financial institutions and banks	516,434	766,795	241,694	-	-	1,524,923
Sukuk securities issued	-	-	867,927	-	-	867,927
Subordinated Loans	-	-	-	386,681	-	386,681
Current and profit / loss sharing investors' accounts	8,460,029	944,651	512,139	-	114,003	10,030,822
Derivative financial instruments	28,163	10,102	-	-	-	38,265
Other liabilities	-	-	-	-	183,769	183,769
Provisions	-	-	-	-	32,875	32,875
Income taxes payable	-	3,683	-	-	-	3,683
Liabilities	9,004,626	1,725,231	1,621,760	386,681	330,647	13,068,945
Net	(2,203,897)	2,187,559	1,471,692	(130,851)	147,213	1,471,716

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29. Financial risk management (continued)

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

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2012						
Due to other financial institutions and banks	-	17,362	413,483	1,874,632	-	2,305,477
Subordinated loans	-	-	-	-	356,520	356,520
Sukuk issued	-	-	-	802,170	-	802,170
Derivative financial instruments(*)	-	2,252,638	293,683	332,264	-	2,878,585
Current accounts	3,344,780	-	-	-	-	3,344,780
Profit and loss sharing accounts(**)	-	1,726,918	2,318,161	3,705,479	15,480	7,766,037
Total undiscounted financial liabilities	3,344,780	3,996,918	3,025,327	6,714,545	372,000	17,453,569
As at December 31, 2011						
Due to other financial institutions and banks	-	517,978	778,619	264,964	-	1,561,561
Subordinated loans	-	-	-	-	391,902	391,902
Sukuk issued	-	-	-	882,531	-	882,531
Derivative financial instruments(*)	-	2,098,201	507,899	-	-	2,606,100
Current accounts	2,868,183	-	-	-	-	2,868,183
Profit and loss sharing accounts(**)	-	5,581,192	944,651	748,742	-	7,274,585
Total undiscounted financial liabilities	2,868,183	8,197,371	2,231,169	1,896,237	391,902	15,584,862

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

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

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2012						
Contingent liabilities and other guarantees(*)	246	1,379,235	292,486	3,861,086	767,398	6,300,451
Commitments	1,433,114	-	-	-	-	1,433,114
Total	1,433,360	1,379,235	292,486	3,861,086	767,398	7,733,565
December 31, 2011						
Contingent liabilities and other guarantees	26,767	1,599,652	1,062,720	1,980,415	372,124	5,041,678
Commitments	1,252,073	-	-	-	-	1,252,073
Total	1,278,840	1,599,652	1,062,720	1,980,415	372,124	6,293,751

(*) 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.

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29. Financial risk management (continued)

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.

Market risk – Non-trading

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

December 31, 2012				December 31, 2011		
Precious metal	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	+10	1,199	-	+10	(1,230)	-
Gold	-10	(1,199)	-	-10	1,230	-

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.

December 31, 2012				December 31, 2011		
Currency	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
USD	+10	(560)	1,898	+10	(3,200)	2,328
USD	-10	560	(1,898)	-10	3,200	(2,328)
EUR	+10	892	-	+10	24	-
EUR	-10	(892)	-	-10	(24)	-

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29. Financial risk management (continued)

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

December 31, 2012

	EUR	USD	Other	Precious Metals	TL	Total
Cash and balances with the Central bank	51,182	70,468	6,598	545	349,343	478,136
Deposits with other banks and financial institutions	110,255	849,019	56,129	256,634	313,397	1,585,434
Reserve deposits at the Central Bank	235,170	1,102,710	-	515,769	-	1,853,649
Financial assets – available-for-sale	-	136,075	-	-	413,241	549,316
Financial assets – held for trading	3,629	17,448	887	24,098	15,749	61,811
Due from financing activities, net	1,086,439	3,449,169	-	145,532	6,902,762	11,583,902
Minimum finance lease payments receivable, net	68,050	87,279	-	-	27,009	182,338
Precious metals	-	-	-	1,655,798	-	1,655,798
Other assets	4,971	12,067	120	90	248,288	265,536
Construction projects, net	-	-	-	-	41,226	41,226
Investment properties, net	-	-	-	-	31,315	31,315
Assets held for sale and disposal of group, net	-	-	-	-	28,951	28,951
Property and equipment, net	367	44	-	-	208,977	209,388
Intangible assets, net	-	-	-	-	43,729	43,729
Deferred tax assets	-	-	-	-	25,520	25,520
Total assets	1,560,063	5,724,279	63,734	2,598,466	8,649,507	18,596,049
Due to other financial institutions and banks	110,199	2,232,171	-	-	5,441	2,347,811
Sukuk issued	-	811,540	-	-	-	811,540
Subordinated loans	-	361,661	-	-	-	361,661
Current and profit / loss sharing investors' accounts	1,018,249	2,754,074	16,676	2,257,253	6,820,938	12,867,190
Other liabilities	1,195	34,518	1,149	-	380,671	417,533
Provisions	-	-	-	-	38,890	38,890
Income taxes payable	-	-	-	-	15,694	15,694
Derivative financial instruments	-	4,020	206	-	3,167	7,393
Equity	-	-	-	-	1,728,337	1,728,337
Total liabilities and equity	1,129,643	6,197,984	18,031	2,257,253	8,993,138	18,596,049
Net balance sheet position	430,420	(473,705)	45,703	341,213	(343,631)	-
Net off-balance sheet position	(421,497)	468,106	(31,451)	(328,014)	344,152	31,296

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29. Financial risk management (continued)

December 31, 2011

	EUR	USD	Other	Precious metals	TL	Total
Cash and balances with the Central bank	20,280	42,857	2,619	-	455,559	521,315
Deposits with other banks and financial institutions	165,978	596,825	39,458	419,149	51,712	1,273,122
Reserve deposits at the Central Bank	316	634,606	-	289,444	-	924,366
Financial assets – available-for-sale	-	714	-	-	5,801	6,515
Financial assets – held for trading	-	13,516	365	-	73,366	87,247
Due from financing activities, net	764,581	3,279,382	2,180	151,379	5,925,759	10,123,281
Minimum finance lease payments receivable, net	63,658	56,922	-	-	13,384	133,964
Precious metals	-	-	-	975,131	-	975,131
Other assets	28,479	23,772	15,158	1	126,140	193,550
Construction projects, net	-	-	-	-	39,633	39,633
Investment properties, net	-	-	-	-	31,127	31,127
Assets held for sale and disposal of group, net	-	-	-	-	23,962	23,962
Property and equipment, net	-	-	-	-	142,475	142,475
Intangible assets, net	-	-	-	-	26,534	26,534
Deferred tax assets	-	-	-	-	38,439	38,439
Total assets	1,043,292	4,648,594	59,780	1,835,104	6,953,891	14,540,661
Due to other financial institutions and banks	181,565	1,343,358	-	-	-	1,524,923
Sukuk issued	-	867,927	-	-	-	867,927
Subordinated loans	-	386,681	-	-	-	386,681
Current and profit / loss sharing investors' accounts	905,897	1,860,198	31,038	2,008,934	5,224,755	10,030,822
Other liabilities	1,526	3,528	345	262	178,108	183,769
Provisions	-	-	-	-	32,875	32,875
Income taxes payable	-	-	-	-	3,683	3,683
Derivative financial instruments	-	29,696	3	-	8,566	38,265
Equity	-	-	-	-	1,471,716	1,471,716
Total liabilities and equity	1,088,988	4,491,388	31,386	2,009,196	6,919,703	14,540,661
Net balance sheet position	(45,696)	157,206	28,394	(174,092)	34,188	-
Net off-balance sheet position	48,042	(189,210)	(12,910)	159,196	(5,118)	-

Pricing risk

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

Operational risk

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

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29. Financial risk management (continued)

Capital adequacy

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

With the regulations published in the Official Gazette dated June 28, 2012, BRSA has introduced a Basel II based method for the Banking system. The Group's consolidated capital adequacy ratio is calculated as 14.06% in accordance with the related Communiqué as of December 31, 2012. The prior periods' capital adequacy ratio is not presented below as the calculation base has changed to Basel II starting from July 1, 2012. The total capital ratios as per previous legislation were 16.02% as of December 31, 2011.

As of December 31, 2012 and 2011, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Capital management

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

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

Regulatory capital

	2012	2011
Tier 1 capital	1,598,446	1,388,749
Tier 2 capital	347,708	380,446
Deductions from capital	(42,500)	(14,229)
Total capital	1,930,654	1,754,966
Risk weighted assets amount subject to credit, market & operational risk	13,638,190	10,953,941

	Actual	Required	Actual	Required
Tier 1 capital ratio	11.72%		12.67%	
Total capital ratio	14.16%	12%	16.02%	12%

30. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2012, the fair value of financing and leasing receivables has been estimated as TL 12,057,527 (December 31, 2011 – TL 10,245,524) whereas their carrying amount is TL 11,766,240 (December 31, 2011 – TL 10,250,117).

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30. Fair value of financial instruments (continued)

Fair value of borrowings at amortized cost is estimated as TL 3,596,613 (December 31, 2011 – TL 2,854,962), whereas their carrying amount is TL 3,521,012 (December 31, 2011 – TL 2,779,531). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

31. Subsequent events

The Parent Bank decided to present in the Ordinary General Assembly dated March 28, 2013, the capital increase to be realized in two stages as based on the decision of the Board of Directors numbered 1321 and dated January 30, 2013. According to the mentioned decision; the share capital is decided to be increased by TL 50,000 from the period profit and TL 190,000 from the reserves and TL 360,000 of cash in the first stage in 2013, thus resulting in a capital of TL 1,700,000; and then resulting in total capital of TL 2,060,000 by another cash increase of TL 360,000 to be paid in 2014.

Within the scope of "Communiqué due to the Amendment of Deposit and Funds Collected subject to Insurance from Saving Deposit Insurance Fund and Premiums that will be received by the Saving Deposit Insurance Fund" published in the Official Gazette numbered 28560 and dated 15 February 2013, the expression "the part of the participation accounts unit account values and special current accounts up to 50 thousand Turkish Liras per person are within the coverage of insurance" was changed as "the sum up to 100 thousand Turkish Liras are within the coverage of the insurance".