

**Kuveyt Türk Katılım Bankası
Anonim Şirketi**

**Interim condensed consolidated financial
statements as at June 30, 2012**

Table of contents

	<u>Page</u>
Report on review of condensed consolidated interim financial information	1
Interim consolidated statement of financial position	2
Interim consolidated statement of comprehensive income	3
Interim consolidated statement of changes in equity	4
Interim consolidated statement of cash flows	5
Selected notes to interim condensed consolidated financial statements	6 - 26

Independent Auditor's Report on Review of Condensed Consolidated Interim Financial Information

To the Board of Directors of
Kuveyt Türk Katılım Bankası Anonim Şirketi
İstanbul

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Kuveyt Türk Katılım Bankası Anonim Şirketi (the "Bank") and its subsidiaries (together the "Group") as of June 30, 2012 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

Other matter

The financial statements of the Group for the year ended December 31, 2011 have been audited by other auditors whose report, dated April 27, 2012, expressed unqualified opinion. The financial statements of the Group for the period ended June 30, 2011 have been reviewed by other auditors. The auditors stated at their review report dated September 19, 2011 that nothing had come to their attention that caused them to believe that the consolidated financial statements were not presented fairly the financial position and the results of the Group's operations as of June 30, 2011.

DRT Bağımsız Denetim ve ŞMMM A.Ş.

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

Istanbul, September 28, 2012

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**Interim consolidated statement of financial position
at June 30, 2012
(Currency- In thousands of Turkish Lira - TL)**

	Notes	June 30, 2012	December 31, 2011
Assets			
Cash and balances with the Central Bank of Turkey	4	579,708	521,315
Balances with other banks and financial institutions	4	2,842,197	1,273,122
Reserve deposits at the Central Bank of Turkey		1,171,361	924,366
Financial assets – held for trading		77,975	87,247
Derivative financial instruments		49,182	74,865
Share certificates		181	27
Gold fund		28,612	12,355
Financial assets – available-for-sale		7,046	6,515
Due from financing activities, net	5	10,608,473	10,123,281
Minimum finance lease payments receivable, net	6	130,492	133,964
Precious metals		362,439	975,131
Other assets	8	129,294	193,550
Construction projects, net		42,024	39,633
Investment properties, net		31,040	31,127
Property and equipment, net		157,360	142,475
Intangible assets, net		34,663	26,534
Deferred tax assets	10	19,917	38,439
		16,193,989	14,516,699
Assets and a disposal group held for sale		30,164	23,962
Total assets		16,224,153	14,540,661
Liabilities and equity			
Due to other financial institutions and banks		2,185,262	1,524,923
Sukuk securities issued		823,015	867,927
Subordinated loans		368,184	386,681
Current and profit / loss sharing investors' accounts	9	11,059,299	10,030,822
Minimum finance lease payables, net		257	-
Derivative financial instruments		33,510	38,265
Other liabilities		89,286	183,769
Provisions		43,858	32,875
Income taxes payable	10	17,908	3,683
		14,620,579	13,068,945
Total liabilities		14,620,579	13,068,945
Share capital	11	1,100,000	950,000
Share premium		23,250	23,250
Legal reserves and retained earnings		499,399	516,379
Currency translation differences		3,514	4,676
Other reserves	11	(22,589)	(22,589)
Total equity attributable to equity holders of the parent		1,603,574	1,471,716
Total liabilities and equity		16,224,153	14,540,661

The policies and explanatory notes on pages 6 through 26 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**Interim consolidated statement of comprehensive income
for the six months ended June 30, 2012
(Currency- In thousands of Turkish Lira - TL)**

	Notes	June 30, 2012	June 30, 2011
Continuing operations			
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		308,079	206,673
Profit on originated loans from current accounts and equity		253,364	168,365
Profit on deposits with other banks and financial institutions		4,497	9,419
Profit on finance leases		4,919	3,135
Total income from financing activities		570,859	387,592
Profit shares distributed to participation accounts		(208,789)	(173,924)
Profit shares distributed to banks and financial institutions		(60,323)	(15,305)
Net financing income		301,747	198,363
Provision for impairment in due from financing activities and lease receivables, net		(46,631)	(33,301)
Net financing income after reserve for impairment in due from financing activities and lease receivables		255,116	165,062
Foreign exchange gain, net		44,882	38,144
Net financing income after net foreign exchange gain		299,998	203,206
Fee and commission income		128,356	97,107
Income from construction projects, net		(391)	585
Net trading income		7,908	8,099
Other income		8,231	21,235
Total other operating income		144,104	127,026
Fees and commission expense		(27,410)	(14,190)
Staff costs		(119,484)	(90,339)
Depreciation and amortization expense		(14,583)	(12,445)
Withholdings and other taxes		(9,392)	(9,694)
Rent expense		(20,221)	(14,184)
Other expenses		(66,305)	(40,843)
Total other operating expense		(257,395)	(181,695)
Profit before income tax		186,707	148,537
Current tax charge	10	(17,908)	(22,836)
Deferred tax (charge) / credit	10	(18,522)	(5,560)
Net income for the period		150,277	120,141
Exchange differences on translation of the foreign subsidiary		(1,162)	944
Other comprehensive income for the period		(1,162)	944
Total comprehensive income for the period		149,115	121,085
Earnings per share (basic and diluted) for net income attributable to the ordinary equity holders of the Group during the period (in full TL per share)	13	0.137	0.109

The policies and explanatory notes on pages 6 through 26 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of changes in equity for the six months ended June 30, 2012 (Currency - In thousands of Turkish Lira - TL)

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Currency translation differences	Other reserves	Total
Balances at January 1, 2011		850,000	23,250	25,564	375,644	308	-	1,275,766
Share capital increase from reserves		100,000	-	-	(100,000)	-	-	-
Transfer from retained earnings to legal reserves		-	-	9,358	(9,358)	-	-	-
Dividends paid	12	-	-	-	(13,749)	-	-	(13,749)
Total comprehensive income for the period		-	-	-	120,141	944	-	121,085
Acquisition of non-controlling interest	11	-	-	-	-	-	(22,589)	(22,589)
Balances at June 30, 2011		950,000	23,250	34,922	373,678	1,252	(22,589)	1,360,513
Balances at January 1, 2012		950,000	23,250	34,921	481,458	4,676	(22,589)	1,471,716
Share capital increase from reserves		150,000	-	-	(150,000)	-	-	-
Transfer from retained earnings to legal reserves		-	-	27,737	(27,737)	-	-	-
Dividends paid	12	-	-	-	(17,257)	-	-	(17,257)
Total comprehensive income for the period		-	-	-	150,277	-	-	150,277
Other		-	-	-	-	(1,162)	-	(1,162)
Balances at June 30, 2012		1,100,000	23,250	62,658	436,741	3,514	(22,589)	1,603,574

The policies and explanatory notes on pages 6 through 26 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of cash flows for the six months ended June 30, 2012 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2012	June 30, 2011
Cash flows from operating activities:			
Net profit before income tax		186,707	148,537
Adjustments to reconcile net income to net cash used in operating activities:			
Gain on sale of property and equipment, intangible assets, investment properties and assets held for sale		(3,869)	(4,875)
Depreciation and amortization expense		14,583	12,445
Reserve for employee termination benefits and personnel bonus accrual		9,890	(477)
Reserve for impairment in due from financing activities (net of recoveries)		9,970	16,483
Expense accrual of participation accounts		(3,237)	(8,097)
Reversal of impairment in construction projects and other assets		-	(6,239)
Impairment for property and equipment		-	3,500
Income accrual of funds invested		(13,444)	(99,960)
Expense accrual of funds borrowed		(65,185)	11,495
Change in deferred income		(6,615)	(8,288)
Net change in derivative financial instruments		8,847	(22,782)
Impact of exchange difference on cash and cash equivalents		(16,500)	(10,251)
Income taxes paid		(3,683)	(13,891)
Operating profit before changes in operating assets and liabilities		117,464	17,600
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(246,995)	(91,006)
Deposits with banks and financial institutions		(290,408)	(244,484)
Due from financing activities		(520,246)	(1,265,826)
Minimum financial lease payment receivables		5,016	(18,793)
Other assets and construction projects		73,946	(93,168)
Current accounts and profit/loss sharing investors' accounts and other liabilities		986,558	1,421,235
Payment for employee termination benefits		(801)	(952)
Payment for employee bonuses		(27,352)	(23,919)
Precious metals		612,692	119,733
Net cash used in operating activities		709,874	(179,580)
Cash flows from investing activities:			
(Purchase) / Proceeds of available-for-sale, held-to-maturity and held-for-trading securities		(531)	(994)
Purchase of property and equipment, intangible assets and investment properties		(35,116)	(33,979)
Proceeds from sale of property and equipment, intangible assets and investment properties		1,475	15,872
Proceeds from sale of asset and liabilities held for sale		-	7,321
Net cash used in investing activities		(34,172)	(11,780)
Cash flows from financing activities:			
Dividends paid		(17,257)	(13,749)
Increase in due to financial institutions and banks		662,115	356,719
Net cash provided by financing activities		644,858	342,970
Net increase / (decrease) in cash and cash equivalents		1,320,560	151,610
Net foreign exchange difference on cash and cash equivalents		16,500	10,251
Cash and cash equivalents at the beginning of the period	4	1,375,288	1,349,677
Cash and cash equivalents at the end of the period	4	2,712,348	1,511,538
Profit share received		564,410	391,859
Profit share paid		272,349	205,470

The policies and explanatory notes on pages 6 through 26 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (Currency - In thousands of Turkish Lira - TL)

1. Corporate information

General

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

The interim condensed consolidated financial statements were authorized for issue by the management on September 28, 2012.

Nature of activities of the bank and its subsidiaries

At June 30, 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 İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 100% shareholding was incorporated in June 1996 in Turkey. The Bank had signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 to transfer 51% of the shares of Körfez in exchange for USD 10,613,000 and TL 2,450. Subsequently, on June 6, 2010, the Group bought back 51% of the outstanding ordinary shares of Körfez, and obtained full control of Körfez by having 100 percent shareholding. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

1. Corporate information (continued)

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

2. Basis of presentation and accounting policies

2.1 Basis of compliance

The interim condensed consolidated financial statements of the Bank and its subsidiaries (collectively – the Group) have been prepared in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting” (“IAS 34”).

The interim financial statements have been prepared on a basis consistent with the accounting policies set out in the financial statements of the Group for the year ended December 31, 2011.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2011.

2.2 Basis of preparation

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

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

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

2.3 Adoption of new standards

2.3.1 New and Revised IFRSs affecting presentation and disclosure only

None.

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

None.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3 Adoption of new standards (continued)

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

The following new and revised IFRSs have 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 IAS 12 Deferred Taxes – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 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 material effect on the consolidated financial statements.

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.

These 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.

2.3.4 New and Revised IFRSs in issue but not yet effective

Amendments to IFRS 7	<i>Disclosures – Offsetting of Financial Assets and Financial Liabilities</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statement</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Amendments to IAS 32	<i>Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities</i>

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3.4 New and Revised IFRSs in issue but not yet effective (continued)

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

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

The Group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 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.

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).

In June 2012, the IASB issued Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12). The transition guidance amends IFRS 10, 11 and 12 to provide additional transition relief in by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.

**Selected notes to interim condensed consolidated
financial statements as at June 30, 2012 (continued)
(Currency - In thousands of Turkish Lira - TL)**

2. Basis of presentation and accounting policies (continued)

2.3.4 New and Revised IFRSs in issue but not yet effective (continued)

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 has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which 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 returns. 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 has been withdrawn upon the issuance 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 proportionate accounting.

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.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Group management anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3.4 New and Revised IFRSs in issue but not yet effective (continued)

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 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.

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 additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will 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 to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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 consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

On 19 October 2011 the IASB issued an Interpretation, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.3.4 New and Revised IFRSs in issue but not yet effective (continued)

Annual Improvements 2009/2011 Cycle

Further to the above amendments and revised standards, the IASB have issued Annual Improvements to IFRSs in May 2012 that cover 5 main standards/interpretations as follows:

- IFRS 1 - Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets
- IAS 1 - Clarification of the requirements for comparative information
- IAS 16 - Classification of servicing equipment
- IAS 32 - Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes
- IAS 34 - Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

All amendments are effective on or after 1 January 2013. Early adoptions of these amendments are allowed. The Group has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

2.4 Functional and presentation currency

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

2.5 Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain / (loss).

Foreign currency exchange rates used by the Group as of respective period-ends are as follows :

Dates	USD / TL	EUR / TL
June 30, 2011	1.6302	2.3492
December 31, 2011	1.9065	2.4592
June 30, 2012	1.8153	2.259

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 1.7937 average exchange rate for the period. Exchange differences arising on translation are taken directly to a separate component of equity.

2.6 Critical judgements and estimates

In preparing these condensed consolidated interim financial statements, the significant estimates, judgments and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2011.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

2.7 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 also 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.

3. Segment Information

For management purposes, the Group 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 Group's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the 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

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

For the period ended June 30, 2012	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	141,235	357,155	(35,067)	-	463,323
Intersegment (*)	120,794	(82,676)	(38,118)	-	-
Total operating income	262,029	274,479	(73,185)	-	463,323
Credit loss expense	(22,343)	(23,491)	(797)	-	(46,631)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	239,686	250,988	(73,982)	-	416,692
Results					
Net profit share income/(expense)	73,657	282,081	(53,992)	-	301,747
Net fees and commission income	51,288	49,829	(171)	-	100,946
Net trading income	787	4,463	2,658	-	7,908
Segment profit/(loss)	125,733	336,373	(51,505)	(223,894)	186,707
Income tax expense	-	-	-	(36,430)	(49,731)
Net profit for the year	125,733	336,373	(51,505)	(260,324)	150,277
Asset and liabilities as of June 30, 2012					
Assets					
Capital expenditures	-	-	-	157,360	157,360
Property and equipment	-	-	-	34,663	34,663
Other intangible assets	-	-	-	-	-
Total assets	3,783,740	7,060,366	5,029,292	350,755	16,224,153
Total liabilities	7,675,188	3,245,756	3,410,230	289,405	14,620,579

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

3. Segment Information (continued)

For the period ended June 30, 2011	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	63,372	292,285	(6,314)	-	350,287
Intersegment	129,943	(89,896)	(18,266)	(21,781)	-
Total operating income	193,315	202,389	(24,580)	(21,781)	350,287
Credit loss expense	(25,653)	(7,648)	-	-	(33,301)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	167,662	195,685	(24,580)	(21,781)	316,986
Results					
Net profit share income/(expense)	21,568	183,618	(6,823)	-	198,363
Net fees and commission income	32,297	50,619	-	-	82,917
Net trading income	561	7,538	-	-	8,099
Segment profit/(loss)	54,426	241,776	(6,823)	(140,842)	149,481
Income tax expense	-	-	-	(28,396)	(28,396)
Net profit for the year	54,426	241,776	(6,823)	(169,238)	120,141
Asset and liabilities as of December 31, 2011					
Assets					
Capital expenditures	-	-	-	106,062	106,062
Property and equipment	-	-	-	17,923	17,923
Other intangible assets	-	-	-	-	-
Total assets	3,452,310	6,9346,449	3,767,139	374,763	14,540,661
Total liabilities	7,076,224	2,849,231	2,144,014	999,476	13,068,945

4. Cash and balances with banks

For the purpose of the consolidated cash flows statement, cash and cash equivalents comprise the following at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Cash on hand	219,999	171,631
Balances with the Central Bank of Turkey	359,709	349,684
Cash and balances with the Central Bank of Turkey	579,708	521,315
Balances with banks and other financial institutions	2,842,197	1,273,122
Sub Total	3,421,905	1,794,437
Less: Interbank gold deposits	709,557	491,149
Total	2,712,348	1,375,288

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued)
(Currency - In thousands of Turkish Lira - TL)

4. Cash and balances with banks (continued)

As of June 30, 2012 and December 31, 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:

	June 30, 2012				December 31, 2011			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	160,000	925,187	10.10%	0.27%	-	299,872	-	1.38%
Total		925,187				299,872		

5. Due from financing activities, net

	June 30, 2012	December 31, 2011
Performing		
Funds invested from profit/loss sharing accounts	5,572,191	4,431,386
Funds invested from current accounts and equity	4,754,224	5,218,806
Income accruals on due from financing activities (*)	218,719	472,820
	10,545,134	10,123,012
Funds in arrears		
Funds invested from profit / loss sharing accounts	132,622	98,857
Funds invested from current accounts and equity	172,593	132,299
	305,215	231,156
Total	10,850,349	10,354,168
Impairment allowance		
Funds invested from profit / loss sharing accounts	(82,675)	(83,350)
Funds invested from current accounts and equity	(159,201)	(147,537)
	(241,876)	(230,887)
Total due from financing activities	10,608,473	10,123,281

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

As of June 30, 2012, the Bank took possession of collateral (lands and buildings) from customers amounting to TL 31,040 (December 31, 2011 - TL 31,127), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued)**
(Currency - In thousands of Turkish Lira - TL)**5. Due from financing activities, net (continued)**

Movement in impairment allowance for funds disbursed is as follows :

	June 30, 2012	June 30, 2011
Balance at January 1,	230,887	197,077
Charge for the period	65,167	39,184
Charges for the profit/loss	42,667	8,698
Charge for the profit/loss sharing accounts	22,500	30,486
Recoveries of amounts previously provided for	(45,809)	(25,249)
Reserves written off in current period	(8,369)	(18,347)
Balance at the end of period	241,876	192,665

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is TL 34,367 (June 30, 2011 – TL 16,818).

The impairment allowance of TL 241,876 (June 30, 2011 – TL 192,665) is made up of a individual and collective allowance.

6. Minimum financial lease payment receivable, net

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

	June 30, 2012	December 31, 2011
Gross investment in finance leases	166,138	169,214
Unearned finance income	(35,954)	(36,342)
Total impaired receivables	3,759	6,087
Impairment allowance	(3,451)	(4,995)
Minimum lease payments receivable, net	130,492	133,964

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

	June 30, 2012	June 30, 2011
Balance at January 1	4,995	4,399
Charge for the period	758	1,156
Charges for the profit/loss	750	727
Charge for the profit/loss sharing accounts	8	429
Recoveries of amounts previously provided for	(414)	(51)
Impairment allowance written off in current period	(1,888)	-
Balance at the end of the period	3,451	5,504

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

6. Minimum financial lease payment receivable, net (continued)

Gross investment in finance leases as to their maturity:

	June 30, 2012	December 31, 2011
Not later than 1 year (*)	63,666	62,484
Later than 1 year and not later than 5 years	100,847	108,287
Later than 5 years	5,384	4,530
Minimum lease payments receivable, gross	169,897	175,301
Less : Unearned finance income	(35,954)	(36,342)
Net investment in finance leases	133,943	138,959
Less : Allowance for impairment	(3,451)	(4,995)
Minimum lease payments receivable, net	130,492	133,964

(*) includes total impaired receivables amounting to TL 3,759 (December 31, 2011– TL 6,087).

As of June 30, 2012, TL 131,742 (December 31, 2011 - TL 120,490) of gross lease receivables is denominated in foreign currency (USD, EUR & CHF).

Net investment in finance leases as to their maturity:

	June 30, 2012	December 31, 2011
Not later than 1 year (*)	49,323	49,264
Later than 1 year and not later than 5 years	80,630	85,897
Later than 5 years	3,990	3,798
Net investment in finance leases	133,943	138,959

(*) Includes total impaired receivables amounting to TL 3,759 (December 31, 2011 – TL 6,087).

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

7. Property and equipment

Acquisitions and disposals

During the six months ended June 30, 2012, the Group acquired assets with a cost of TL 17,955 (June 30, 2011 – TL 15,153).

Assets with a net book value of TL 310 were disposed of by the Group during six months ended June 30, 2012 (June 30, 2011 - TL 2,290), resulting in a net loss on disposal TL 219 (June 30, 2011 – TL 268).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

8. Other assets

Other assets comprise the following:

	June 30, 2012	December 31, 2011
Clearing accounts	38,864	102,841
Receivables from precious metals transactions	28,269	8,309
Blockage for letter of guarantee	608	46,828
Prepaid expenses	46,131	16,541
Value added tax (VAT) receivable	816	2,812
Receivable from assets sold	-	-
Receivables from banking operations	4,567	4,050
Other	10,039	12,169
	129,294	193,550

9. Current and profit loss sharing investors' accounts

	June 30, 2012	December 31, 2011
Current accounts:		
Turkish Lira	1,247,049	1,293,820
Foreign currency	1,531,901	1,574,363
	2,778,950	2,868,183
Profit/loss sharing investors' accounts:		
Turkish Lira	4,285,054	3,893,509
Foreign currency	3,840,098	3,110,472
	8,125,152	7,003,981
Blocked accounts:		
Turkish Lira	42,200	37,428
Foreign currency	75,526	80,522
	117,726	117,950
Total current accounts and profit/loss investors' accounts	11,021,828	9,990,114
Expense accrual on current accounts and profit/loss sharing investors' accounts	37,471	40,708
Total current accounts and profit/loss sharing investors' accounts	11,059,299	10,030,822

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

10. Income taxes

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying condensed consolidated interim financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base for the nine month period ended September 30, 2011. This rate was 20% for the nine month period ended September 30, 2010 as well. Capital gains arising from the disposal of property and equipment and investments owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in equity with the intention to be utilized in a share capital increase within five years from the date of the disposal. The remaining 25% of such capital gains are subject to corporate tax.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2011 is 20%. (2010: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 23 July 2006, withholding income tax rate is 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Investment Incentives

Upon the Constitutional Court's resolution No: 2009/144 published in the Official Gazette on January 8, 2010, the expression of "solely for the periods related to 2006, 2007 and 2008" in the Provisional Article No: 69 of Income Tax Law No: 193, and 5th Article of the Law No: 6009 that came into effect by being published in the Official Gazette No: 27659 dated August 1, 2010 had been annulled. The new resolution enabled to continue to benefit from investment incentive deduction that was not deducted due to insufficient earnings and that passed on next periods without period limitation, however proposed that the deduction amount would not exceed 25% of the taxable income of the period. Moreover, the effective corporate tax rate for investment incentive deduction beneficiaries would be adopted as 20%, rather than 30%. The Constitutional Court has decided that the sentence "the amount subject to deduction as exemption of investment allowance in tax basis determination cannot exceed 25% of relevant earnings" which was added to the first clause of 69th temporary article of Income Tax Law, and 5th article of Law No: 6009 is contrary to the Constitutional Law and has decided to repeal the mentioned sentence at the meeting dated February 9, 2012.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued)**
(Currency - In thousands of Turkish Lira - TL)**10. Income taxes (continued)**

In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

The details of income tax expense are as follows;

	June 30, 2012	December 31, 2011
Current tax expense	17,908	74,770
Prepaid tax (-)	-	(71,087)
Income taxes payable	17,908	3,683

	June 30, 2012	June 30, 2011
Current tax expense	17,908	22,836
Deferred tax charge / (credit)	18,522	5,560
Total income tax charge	36,430	28,396

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 periods June 30, 2012 and 2011 are as follows :

	June 30, 2012	June 30, 2011
Net profit before income tax	186,707	148,537
At Turkish statutory income tax rate of 20%	37,341	29,707
Effect of income not subject to tax	(1,360)	(1,720)
Effect of expenditure not allowable for income tax purposes	449	796
Other permanent differences	-	(387)
Income tax charge	36,430	28,396

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

10. Income taxes (continued)

Deferred income tax as of June 30, 2012 and December 31, 2011 are attributable to the following items :

	Deferred tax assets / (liabilities)	
	June 30, 2012	December 31, 2011
Provision for impairment in due from financing activities	9,574	10,122
Reserve for employee termination benefits	2,144	1,839
Deferred income	17,440	16,712
Bonus accrual of personnel	1,713	807
Impairment provision for subsidiaries, fixed assets and assets held for sale	3,214	1,703
Effect of precious metals valuation	-	21,610
Effect of other temporary differences	143	1,135
Deferred tax assets	34,228	53,928
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(2,152)	(2,117)
Accounting for finance leases	(187)	(369)
Derivative accrual	(4,089)	(6,020)
Effect of precious metals valuation	(794)	(2,242)
Provision for non cash loans and check commitments	(5,361)	(4,741)
Other	(1,728)	(4,741)
Deferred tax liabilities	(14,311)	(15,489)
Deferred tax asset – net	19,917	38,439
Movement of net deferred tax (liability) / asset is:		
	June 30, 2012	June 30, 2011
Balance at the beginning of the period	38,439	13,400
Deferred income tax recognized in income statement	(18,522)	(5,560)
Balance at the end of the period	19,917	7,840

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued)**
(Currency - In thousands of Turkish Lira - TL)**11. Share capital and other reserves****Share capital**

	June 30, 2012	December 31, 2011
Number of common shares, 1 TL, par value. Authorized, issued and outstanding.	1,100.00 million	950.00 million

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

	June 30, 2012		June 30, 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 June 30	1,100,000,000	1,100,000	950,000,000	950,000

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

As of June 30, 2012 and December 31, 2011, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Kuwait Finance House	684,654	62.2	591,228	62.2
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	205,912	18.7	177,833	18.7
The Public Institution for Social Security, Kuwait	99,000	9	85,500	9
Islamic Development Bank	99,000	9	85,500	9
Other	11,434	1.1	9,939	1.1
Total share capital	1,100,000	100%	950,000	100%

Other reserves

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

12. Dividends paid and proposed

Dividends paid and proposed

During the current period, the Bank has paid a dividend of TL 17,257 (June 30, 2011 – TL 13,749) from the profit of the year 2011.

	June 30, 2012	June 30, 2011
Ordinary shares		
Amount	17,257	13,749
TL (full) per share	0.016	0.013

13. Earnings per share

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

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.

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

	January 1 – June 30, 2012	January 1 – June 30, 2011
Net profit attributable to continuing operations of the Bank for basic earnings per share	150,277	120,141
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	150,277	120,141
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)	0.137	0.109

There are no dilutive potential ordinary share and accordingly there are no diluted earnings per share for any class of shares.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

14. Commitments and contingencies

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

- a) The following is a brief summary of significant contingencies and commitments as of June 30, 2012 and December 31, 2011 :

	June 30, 2012	December 31, 2011
Letters of guarantee issued by the Bank	4,886,445	3,150,355
Letters of credits	836,822	535,890
Commitments	1,835,829	1,284,671
Acceptance credits	74,652	39,285
Other guarantees	29,120	4,678
Total	7,662,868	5,014,879

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

Future minimum rental payables under operating leases are as follows :

	June 30, 2012	December 31, 2011
Within one year	6,813	35,535
After one year but not more than five years	127,951	84,515
More than five years	204,684	30,877
Total	339,448	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 25,780 as of June 30, 2012 (December 31, 2011 - TL 4,162). As of June 30, 2012, the amount of the checks and bonds in collection are TL 2,793,209 (December 31, 2011 - TL 2,392,255) and TL 527,930 (December 31, 2011 - TL 416,311), respectively.

15. Related party disclosures

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

15. Related party disclosures (continued)

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2012 and December 31, 2011 and also transactions which have been entered into with related parties during the six months period ended June 30, 2012 and 2011.

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

		June 30, 2012		December 31, 2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	-	-	52,614	357
KFH – Bahrain	USD	202,767	368	371,858	709
	BHD	37,745	182	-	-
Auto Land A.S.	TL	-	31,686	-	30,195
Other related parties		-	51,592	-	56,483
		83,828		87,744	

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

ii) Due to other financial institutions:

		June 30, 2012		December 31, 2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
Kuwait Finance House (1)	USD	599,932,243	1,089,057	-	-
The Public Institute for Social Securities KW (1)	USD	133,101,587	216,982	182,629,366	282,345
		1,306,039		282,345	

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

		June 30, 2012		December 31, 2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	1,548,338	2,811	1,237,723	2,360
Kuwait Finance House (1)	TL	-	10,358	-	9,868
Kuwait Finance House (1)	KWD	-	-	11,000	74
Islamic Development Bank (1)	USD	-	-	5,294	10
Islamic Development Bank (1)	TL	-	-	-	291
Kuwait Finance Malaysia	XAU	890,525	82,374	907,440	86,652
Directorate of Vakıf Foundations, Turkey (1)	TL	-	9,985	-	6,056
Neova Sigorta AS (*)	TL	-	4,097	-	3,273
	USD	24,479	44	-	-
	EUR	3,897	9	-	-
Other related parties		-	48,613	-	-
		158,291		108,584	

(1) Shareholders

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2012 (continued) (Currency - In thousands of Turkish Lira - TL)

15. Related party disclosures (continued)

iv) Profit shares distributed :

		June 30, 2012		June 30, 2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	6,524,153	11,843	1,480,482	2,426
Islamic Development Bank (1)	EUR	-	-	-	-
Islamic Development Bank (1)	USD	1,280,856	2,325	561,290	932
Vakıflar Genel Müdürlüğü					
Mazbut Vakıfları (1)	TL	-	-	-	68
Neova Sigorta (*)	TL	-	65	-	275
Kredi Garanti Fonu	TL	-	82	-	4
Other	TL	-	5	-	63
			14,320		3,768

(1) Shareholders

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

v) Non-cash credits issued :

		June 30, 2012		December 31, 2011	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	391,720	711	156,063	298
Other related parties	TL	-	5,047	-	2,949
			5,758		3,247

(1) Shareholders

Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 6,146 during the six months period ended June 30, 2012 (For the six months ended June 30, 2011 - TL 5,644). During the six months ended June 30, 2012 the key management personnel did not receive any termination benefits (During the six months ended June 30, 2011 - nil).

16. Subsequent events

Banks' capital adequacy calculations are revised effective from July 1, 2012 in accordance with "The Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette No: 28337 dated June 28, 2012 by BRSA, in line with the transition to Basel II.