



# KUVEYTTÜRK

ANNUAL REPORT 2011

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## Quilling (Paper Filigree)

Quilling is a traditional paper sculpture art form with deep historical roots. It involves the use of strips of paper that are rolled, shaped, and glued together to create decorative designs. Quilling, whose name in Turkish means "cutting", requires an extremely careful eye, elaborate craftsmanship and an industrious nature.

The first known works of quilling, an art form originated in the Far East, in the Islamic world date back to the 12th century. A major part of Ottoman book arts, quilling had its golden age during the reign of Suleiman the Magnificent. A wide variety of rich quilling works were produced during this era where quilling artists were respected as prestigious craftsmen.

In an effort to remind everybody of and conserve our traditional values, Kuveyt Türk associates its values with the art of quilling and presents some unique examples of it on these pages.

## The Chintamani Motif

The motif formed by "three dots" or "three crescents" arranged triangularly facing each other in traditional Turkish arts is called the "chintamani". A symbol of potency and power, the chintamani is often used together with the two lips or two waves motif. The first examples of this motif, which originates in Central Asia, are found in Timurid era coins. One of the most popular motifs of the Ottoman arts, chintamani was used widely in decorating textiles, carpets, kaftans and ceramics.

The chintamani motif on the cover of this Report is an original work of the quilling artist Ahmet Çoktan. This piece, which surely is a work of art, was produced singularly and signed by its artist.

It can be framed with the use of a suiting background.

## **Alhamdulillah** Expression of gratitude to Allah

“Alhamdulillah” is an expression of praise and gratitude for the unlimited mercy and blessings Allah (swt) bestowed upon humanity and everything else in existence.

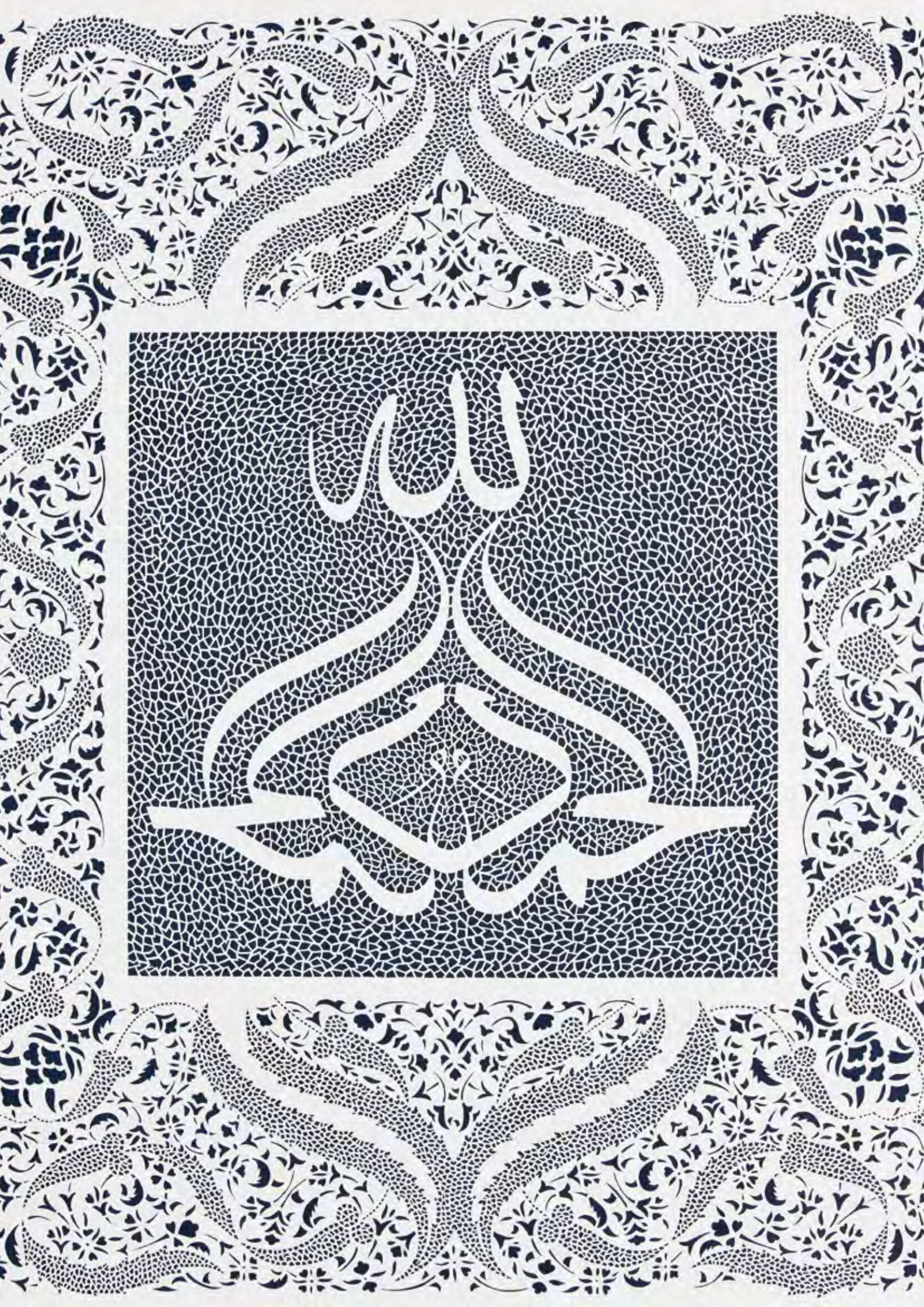
This word is a reflection of the permanent servitude of all created to Allah and can be considered the summary of the Islamic faith. The depiction of the word “Alhamdulillah” is the summary form of state of faith and gratitude that is the most widely used motif in Islamic arts.

The first verse (ayat) of Sura Al-Fatiha, the first chapter of the Qur’an, starts with this expression.

Calligraphy design  
*Cevat Horan*

Quilling  
*Ahmet Çoktan*







## **Musenna (mirror) style** **The letter Waw**

It is used synonymously with the word “Hu”, which refers to the essence of Allah (swt). It is used frequently in traditional calligraphy because of its symbolic meaning and aesthetic form. This letter resembles a person’s prostration (sujud) position or the position of a fetus in the uterus. In another words, it is the state of protection and being watched over, or a person’s journey from Waw to Alif. According to the abjad numerals, a decimal numeral system in which the 28 letters of the Arabic alphabet are assigned numerical values,” Waw” corresponds to the number 6. In this regard, it represents the six pillars of Islamic faith.

The waves on which “Waw” is sitting symbolize a human being’s fluid state of mind and the instability of life on earth.

Calligraphy design  
*Davut Bektaş*

*Quilling*  
*Ahmet Çoktan*

Theme  
*Wave*







## **Alhamdulillah** Calligraphy detail

Since human beings are the most honored among the created, they express their gratitude to the Creator with the word “Alhamdulillah” as the spokesperson on behalf of all created. We also state with this word that the Glorious Creator does not have a partner or there is nobody or nothing like Him, He is one, and all praise and gratitude in the world of the created is directed only toward Him. One of the exceptional works of calligraphy with its elaborate craftsmanship, rich detail and perfect proportions, the word “Alhamdulillah” is one of the best expressions of this state of gratitude and faith.

Calligraphy design  
*Mehmet Arif Vural*

Quilling  
*Ahmet oktan*





## **Trefoil**

### **A decorative motif in calligraphy**

The trefoil visually resembles the Latin letter “V” as well as a whirling dervish with arms raised to the sky. It takes the shape of the motif of a human who has surrendered to the rhythm of the universe and acts in harmony with the created. It is used in calligraphy for filling spaces and decorating. It has also been placed on similar-looking letters to direct the attention to them and emphasize them. Thus it is also used as the fermata symbol in music. Symbolically, it represents pausing in certain moments in one’s life and perceiving one’s surroundings, awareness, and realizing one’s place among the created.

Calligraphy design  
*Adem Sakal*

Quilling and Marbling  
*Ahmet oktan*







## SUMMARY FINANCIAL HIGHLIGHTS

# Strong financial performance

As of year end 2011, Kuveyt Türk's total shareholders' equity reached TL 1,5 billion, showing a 15,4% increase.

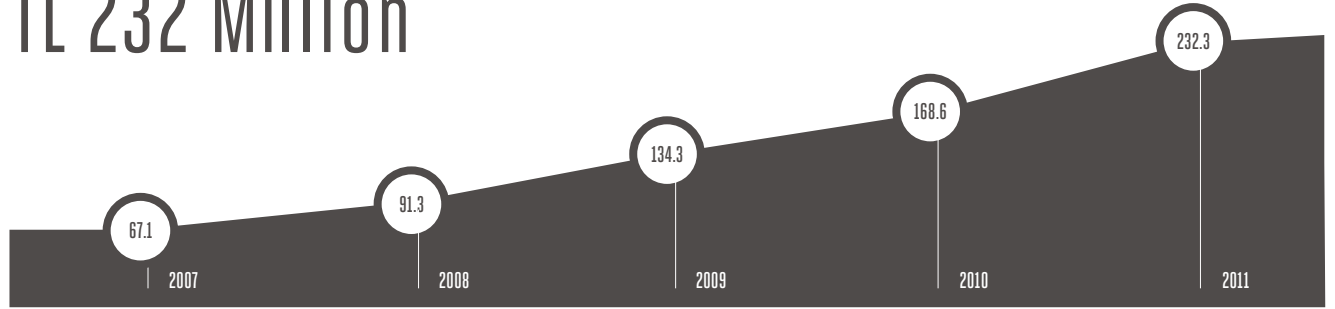
Summary Financial Highlights (TL Thousand)	2011*	2010*	2009*
Profit sharing income	882,153	639,251	620,640
Profit sharing expense	437,367	318,096	369,844
Net fee and commission income	172,813	140,051	128,884
Other income	130,996	110,508	96,124
Other expenses	466,576	361,578	304,774
Provision for taxes	49,731	41,576	36,749
Net profit for the period	232,288	168,560	134,281
Total assets	14,533,533	9,594,264	6,814,897
Total shareholders' equity	1,471,716	1,275,765	817,481
Capital adequacy ratio (%)	16.28	17.05	14.84

\*Consolidated figures



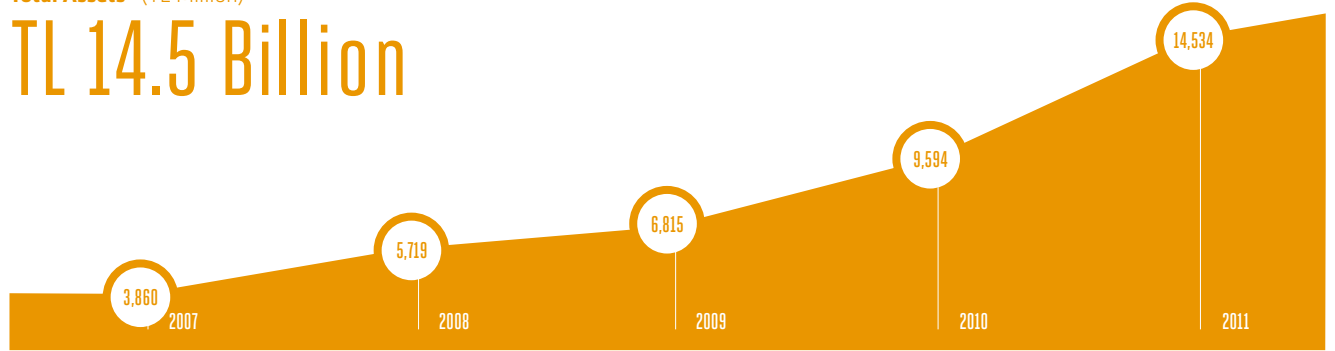
Net profit for the period\* (TL Million)

TL 232 Million



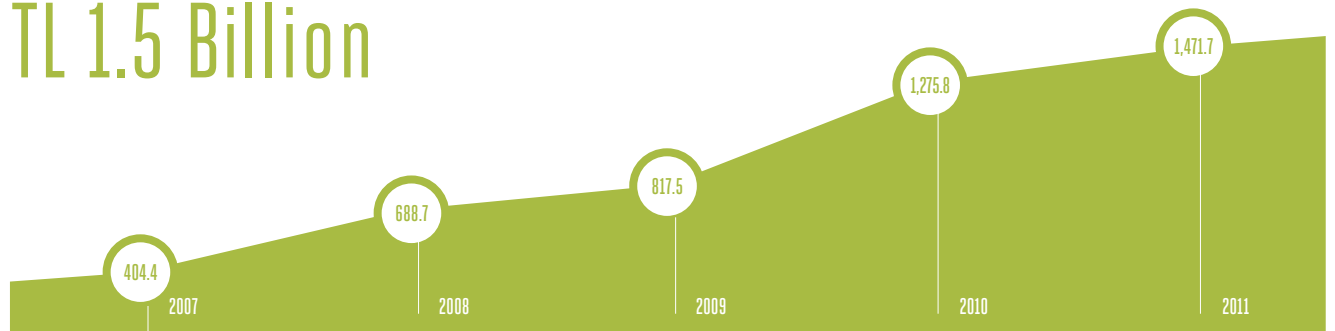
Total Assets\* (TL Million)

TL 14.5 Billion



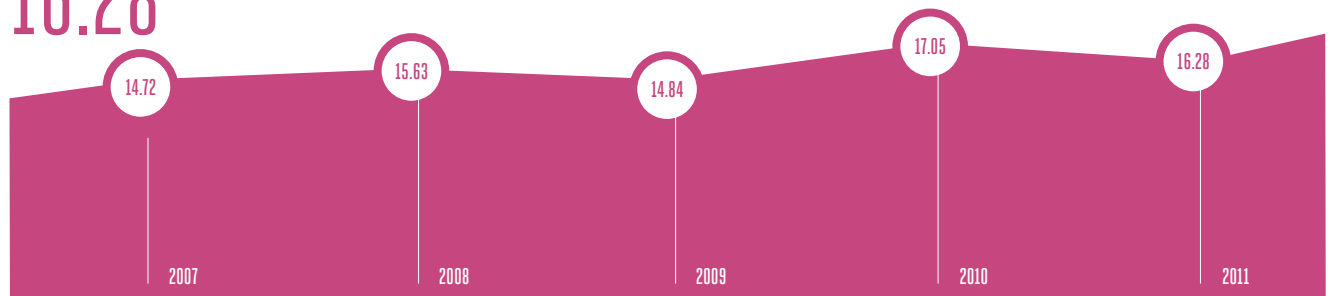
Total Shareholders' Equity\* (TL Million)

TL 1.5 Billion



Capital Adequacy Ratio (%)\*

16.28



\*Consolidated figures

## AGENDA OF THE ORDINARY GENERAL ASSEMBLY MEETING

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### MEETING AGENDA

1. Determination of the date and setting the agenda of the Annual Ordinary General Assembly Meeting.

### AGENDA

1. Election of the Presiding Committee.
  2. Authorization of the Presiding Committee to sign the Minutes of the General Assembly.
  3. Reading, deliberation and approval of the 2011 Annual Report.
  4. Reading, deliberation and approval of the Statutory Auditors' Report.
  5. Deliberation and approval of the Balance Sheet and Profit & Loss Statement for 2011.
  6. Decision on the principles of distributing the 2011 profit.
  7. Acquittal of the Board of Directors of its fiduciary responsibilities.
  8. Acquittal of the Statutory Auditors of their fiduciary responsibilities.
  9. Election of the members of the Board of Directors.
  10. Election of the Statutory Auditors.
  11. Deliberation of and decision on the amendment to Article 7 of the Articles of Association.
  12. Determination of the Statutory Auditors' salaries for 2012.
  13. Pursuant to Banking Law No. 5411 and related legislation, provision of information on independent audit activities.
  14. Pursuant to the resolution of the Banking Regulation and Supervision Agency on profit distribution, provision of information on the bonuses paid to the employees.
  15. Pursuant to Article 14/2 of the Regulation on the Procedures and Principles for Determination of Qualifications of Loans and other Receivables by Banks and Provisions To Be Set Aside, approval of "reflecting in accounts of expenses the portion of provisions set aside that correspond to the participation accounts, provided that the provisions of the Turkish Commercial Code are reserved".
  16. Authorization of the Members of the Board of Directors to perform the transactions stipulated in Articles 334 and 335 of the Turkish Commercial Code.
  17. Other necessary issues, wishes and petitions.
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## KUVEYT TÜRK IN BRIEF

# Steadfast growth policy

Kuveyt Türk is the leader among the participation banks in Turkey with its innovative products and practices.

### **Pioneering innovation in participation banking**

Pursuant to the authorization issued by the Central Bank of Turkey on February 28, 1989, Kuveyt Türk Katılım Bankası A.Ş. was founded on March 31, 1989 with the status of a Private Financial Institution under the commercial title of "Kuveyt Türk Evkaf Finans Kurumu A.Ş." Like other private financial institutions, Kuveyt Türk became subject to the Banking Law No. 4389 in 1999. In 2006, the business title of the Bank was changed to Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk), the name the Bank continues to use today.

### **Reliable shareholding structure**

As of year-end 2011, Kuveyt Türk's shareholders' equity stands at TL 1.5 billion. 62.24% of the Bank's outstanding shares are owned by Kuwait Finance House, 18.72% by Turkish General Directorate of Foundations, 9% by Kuwait Public Institution for Social Security, 9% by Islamic Development Bank, and the remaining 1.04% by other real and legal persons. Thanks to the position of Kuwait Finance House, the main partner of Kuveyt Türk, as one of the world's leading institutions in interest-free banking with billions of dollars in total funds and modern banking services, the Bank established a reputable position in the industry.

### **Effective service network**

Kuveyt Türk provides effective solutions in participation banking to its clients with 178 branches throughout Turkey as well as overseas branches in Bahrain and Mannheim. As of December 31, 2011, the Bank has 3,326 employees.

### **Value-added-oriented products and services**

Kuveyt Türk generates value-added-oriented, unique products and services thanks to the funds acquired domestically and internationally via "special current accounts" and "profit and loss participation accounts," as well as its strong equity capital.

### **Supporting the real economy in accordance with "Interest-Free Banking" principles**

Kuveyt Türk, which operates in accordance with "Interest-Free Banking" principles and boasts a solid position in the finance industry in terms of equity capital adequacy, makes a significant contribution to Turkey's economic development and growth by supporting the investments of real and legal persons through direct financing support or participation by way of joint ventures. The Bank's effective solutions in export finance have been recognized with numerous awards from public agencies and professional associations including the Undersecretariat of Treasury and Foreign Trade, the Istanbul Chamber of Commerce and the Istanbul Textile & Apparel Exporters Association. In an effort to create more value for the savings of its clients, each of which is a profit partner of the Bank, Kuveyt Türk embraces it as an indispensable component of its core activities to develop innovative projects.

### **Lease certificate issuance: a new stage in SUKUK transaction**

After securing a US\$ 100 million foreign resource for the Turkish economy by undertaking the first SUKUK deal in the industry in 2010, Kuveyt Türk added to its long list of accomplishments in international finance in 2011 by completing its second SUKUK issuance backed by lease certificates. Undertaken through KT SUKUK Varlık Kiralama A.Ş., a subsidiary of the Bank, this US\$ 350 million transaction was 1.6 times oversubscribed owing to the heavy interest from the world's leading financial centers. This successful transaction affirmed Kuveyt Türk's international reputation while bolstering the Bank's funding facilities significantly.

### **Turkish investors' major partner in the Gulf Region**

Turning Kuwait Finance House's extensive correspondent network and deep-seated interest-free banking experience into a major competitive edge, Kuveyt Türk is the most effective financial partner for investors seeking access to the funding sources of the Gulf Region

as well as the leader in the Turkish banking industry thanks to its broad product portfolio appealing to all sorts of international commercial activities. Making a major contribution to the growing trade between Turkey and the Gulf Region through its Bahrain Branch, the Bank is focusing on projects that will be presenting opportunities for new investments in the coming days.

### **A first in participation banking: GoldPlus Gold Exchange-Traded Fund**

Kuveyt Türk, which is the symbol of innovation in participation banking, became the first participation bank in Turkey to launch an exchange-traded fund with the GoldPlus Gold Exchange-Traded Fund. In addition, it was also the first bank to offer customers foreign-currency forward trading with a fixed exchange rate for hedging against abrupt fluctuations in foreign exchange rates stemming from economic uncertainties.

### **First participation bank to engage in retail banking**

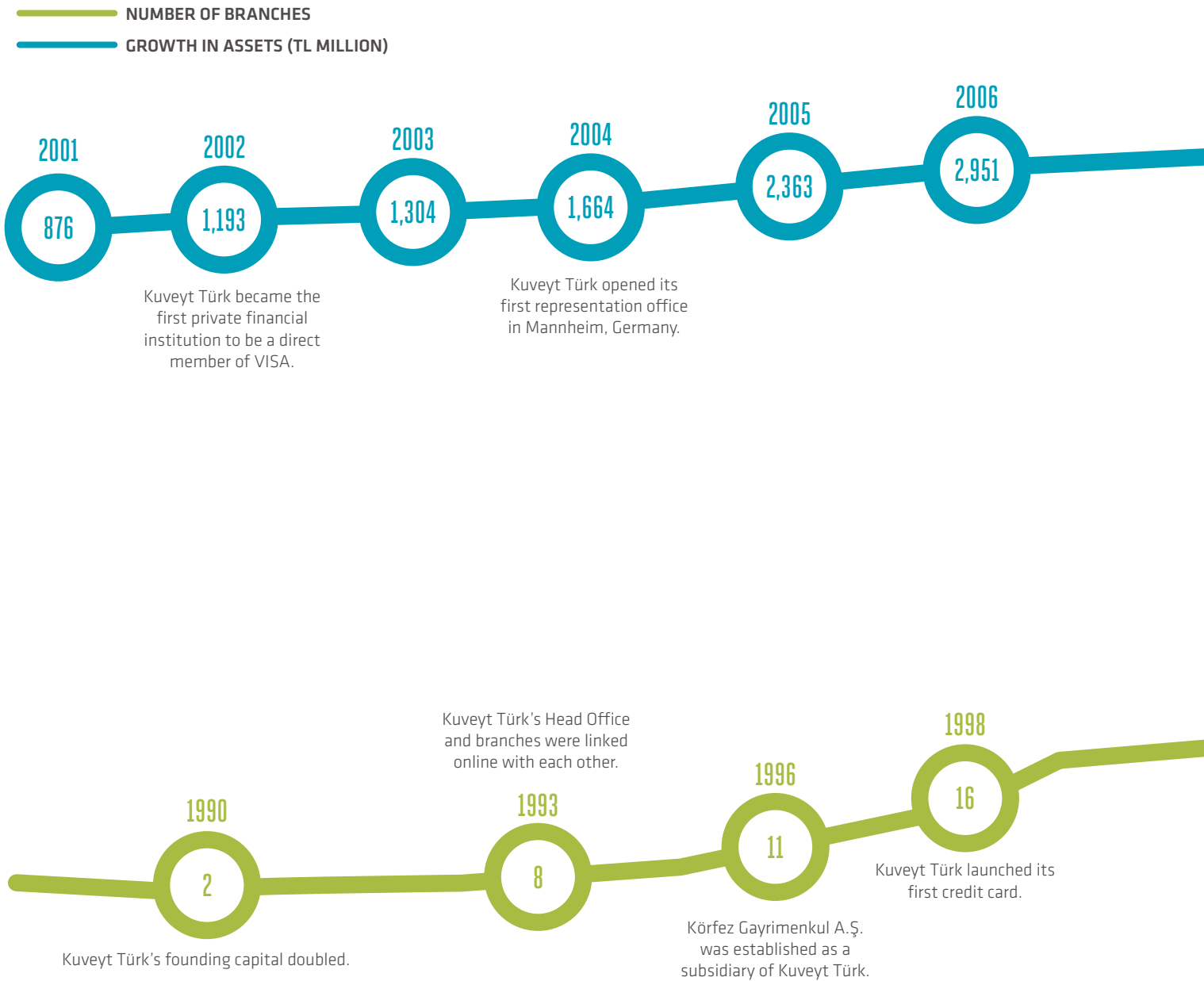
The first participation bank to venture into the retail banking business line, Kuveyt Türk had major accomplishments in this segment in very short order thanks to its new product development capability. Expanding its client portfolio significantly owing to the extensive array of products rolled out in this segment, the Bank is also a pioneer in the industry with its products geared to the housing market. Also the first participation bank to group its client base into segments, Kuveyt Türk achieved high quality standards in customer services and customer retention rates and set an example for other participation banks planning to enter this segment.

The leader among the participation banks in Turkey with its robust capital structure and advanced corporate governance, Kuveyt Türk has a paid-in capital of TL 950 million as of year-end 2011. The Bank's consolidated total assets grew by 51.5% to reach TL 14.5 billion at year-end 2011, from TL 9.6 billion as of year-end 2010.

## MILESTONES

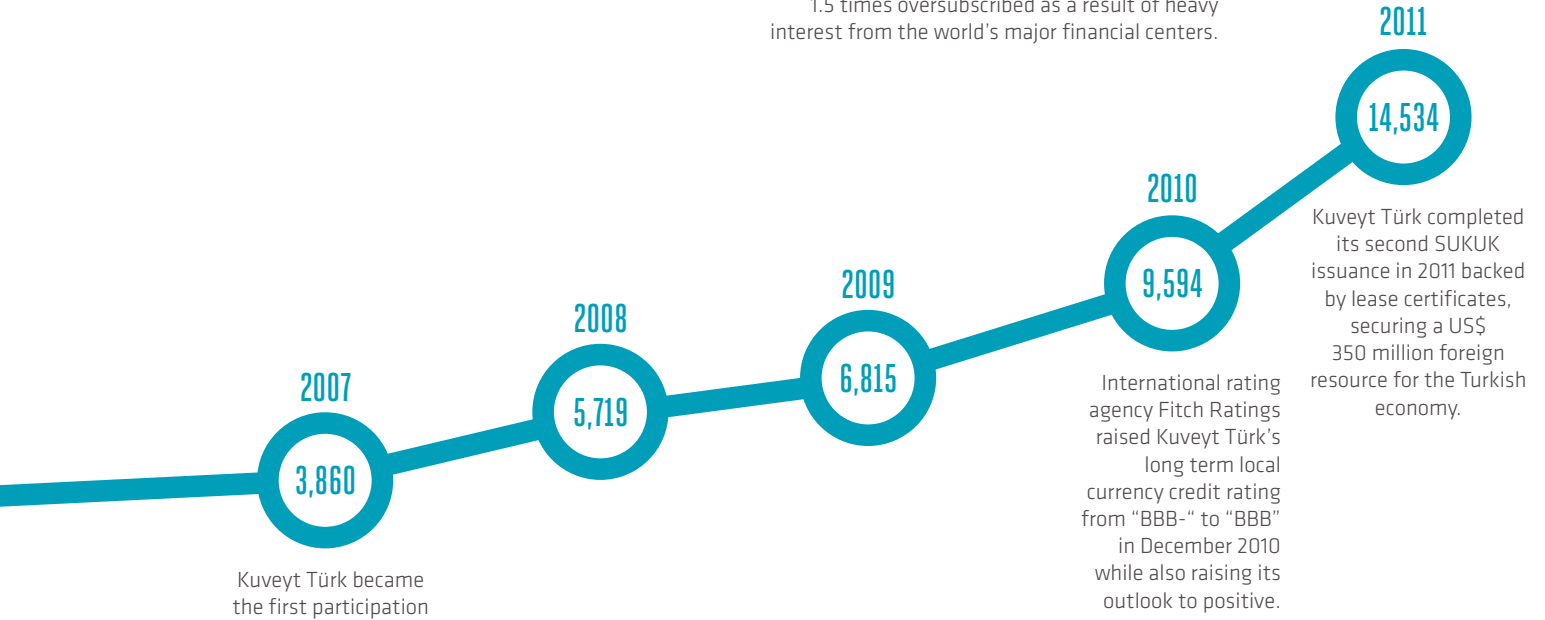
# Steady corporate development

Boasting a total 180 domestic and overseas branches as of year-end 2011, Kuveyt Türk is raising the quality standard for its products and services with each passing day.





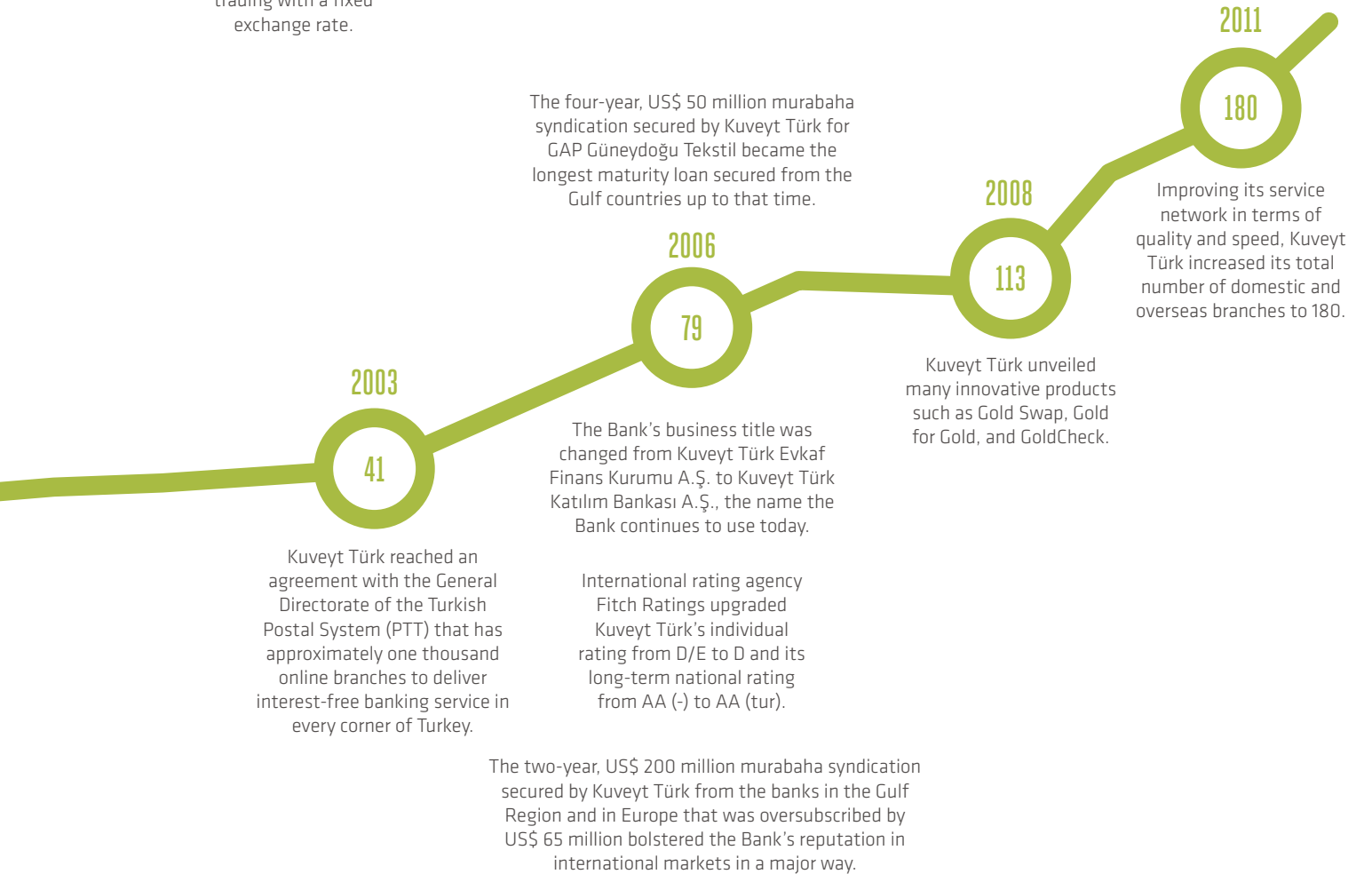
Issuing the first Sukuk security under the lead-arrangement of LMH (Liquidity Management House) and Citibank, the Bank introduced this financial instrument used widely particularly in the Gulf Region and in Malaysia to Turkey. This three-year, US\$ 100 million issuance was 1.5 times oversubscribed as a result of heavy interest from the world's major financial centers.



Kuveyt Türk became the first participation bank to launch foreign currency forward trading with a fixed exchange rate.

International rating agency Fitch Ratings raised Kuveyt Türk's long term local currency credit rating from "BBB-" to "BBB" in December 2010 while also raising its outlook to positive.

Kuveyt Türk completed its second SUKUK issuance in 2011 backed by lease certificates, securing a US\$ 350 million foreign resource for the Turkish economy.



Kuveyt Türk reached an agreement with the General Directorate of the Turkish Postal System (PTT) that has approximately one thousand online branches to deliver interest-free banking service in every corner of Turkey.

The Bank's business title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş., the name the Bank continues to use today.

International rating agency Fitch Ratings upgraded Kuveyt Türk's individual rating from D/E to D and its long-term national rating from AA (-) to AA (tur).

The two-year, US\$ 200 million murabaha syndication secured by Kuveyt Türk from the banks in the Gulf Region and in Europe that was oversubscribed by US\$ 65 million bolstered the Bank's reputation in international markets in a major way.

Kuveyt Türk unveiled many innovative products such as Gold Swap, Gold for Gold, and GoldCheck.

Improving its service network in terms of quality and speed, Kuveyt Türk increased its total number of domestic and overseas branches to 180.

## MISSION, VISION, QUALITY POLICY AND SERVICE PRINCIPLES

# Reliable financial institution

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### OUR MISSION

To be a bank that is loyal to its core corporate principles  
(interest-free financial transactions and operations),  
Has moral values,  
Focuses on customer-oriented banking,  
Embraces corporate social responsibility.

### OUR VISION

To offer tailored and new financial solutions,  
To be ranked among Turkey's top five banks in service quality by  
2014 and among 10 largest banks in total assets in Turkey by 2018 in light  
of its know-how and experience as an international bank.

### OUR QUALITY POLICY

**In regards to service quality,**  
to implement quality management in order to increase service diversity and speed.

**In regards to continuous development,**  
to implement a participatory management policy focused on continuous education,  
knowledge and experience jointly with the employees who are proud to be working  
for Kuveyt Türk.

**In regards to customer-oriented banking,**  
to utilize alternative service channels to develop new products and services to  
meet customer expectations, to increase interest-free service points, and to be  
open to customer suggestions.

### OUR SERVICE PRINCIPLES

Kuveyt Türk pursues the following service principles to sustain  
uninterrupted maximum service quality:

Generating quick solutions to problems  
Business-partnership approach to clients  
Innovativeness  
Customer focus  
Hospitality

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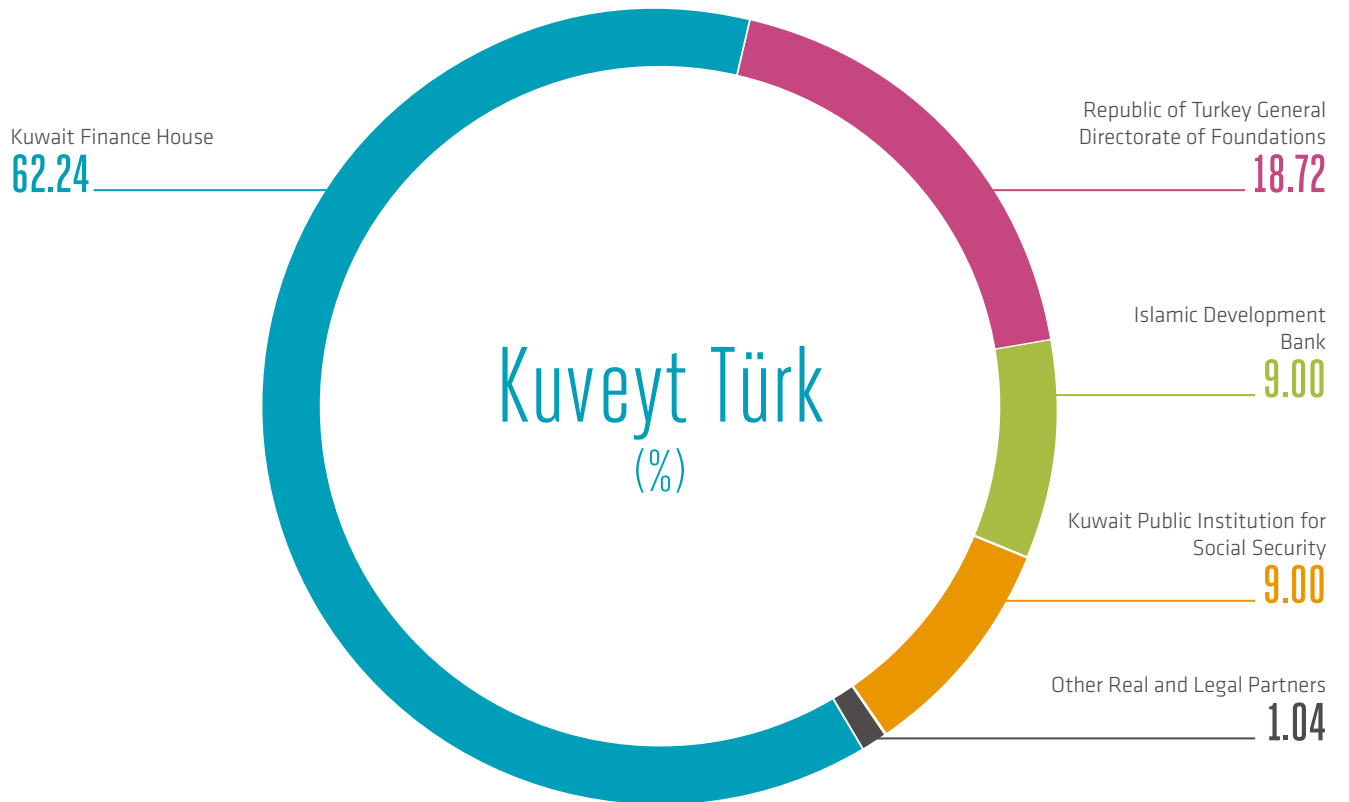
## CHANGES IN SHAREHOLDING AND CAPITAL STRUCTURE AND ARTICLES OF ASSOCIATION

# Robust capital structure

Kuveyt Türk's strong ties with its partners are solidifying its leading market position in the industry.

Name/Title of Partner	Share Capital (TL Thousand)	Ownership Share (%)
1. Kuwait Finance House	591,292	62.24
2. Republic of Turkey General Directorate of Foundations	177,833	18.72
3. Kuwait Public Institution for Social Security	85,500	9.00
4. Islamic Development Bank	85,500	9.00
5. Other Real and Legal Shareholders	9,875	1.04
<b>Total</b>	<b>950,000</b>	<b>100.00</b>

\* The total percentage of shares held by the Chairman and members of the Board of Directors, the CEO and Executive Vice Presidents is 0.20%.



### Amendments to the Articles of Association

Article 41 of the Articles of Association was amended to increase the number of members of the Supreme Advisory Board from three to six.  
Article 7 of the Articles of Association was amended to increase the share capital of Kuveyt Türk Katılım Bankası A.Ş. from TL 850,000,000 to TL 950,000,000 by transferring TL 100,000,000 from the 2010 profit.

## MESSAGE FROM THE CHAIRMAN

# Our endeavors have set an example for the sector.

## 51.5% GROWTH IN TOTAL ASSETS

Achieving new success during each activity period, Kuveyt Türk increased its total asset size to TL 14.5 billion, an increase of 51.5% in 2011.



Esteemed Shareholders,

With innovative products, Kuveyt Türk has undertaken a leading role in the process of participation banking and has become one of the most important cornerstones of the Turkish finance sector. It achieved profitable financial and operational business processes during the 2011 activity period and maintained its corporate development in a consistent manner, in line with identified

targets and policies. The vast banking experience of Kuwait Finance House, our main partner along with a strong network of correspondents on a global scale, has again guided us in shaping our road map during the 2011 activity period.

The year 2011 saw the replacement of the global recovery process with uncertainty due to the sustainability of public debt that has expanded in the Euro Zone creating a

domino effect and the emergence of the possible danger of a regional recession for the economy worldwide. The recovery process of the US economy failing to reach the desired levels and the adverse developments experienced across Europe led to a decline in the growth performance of developing countries with export-driven economies. These developments experienced in the global economy have

With an innovative and comprehensive product range, steadily developing service network in compliance with the criteria of speed and quality and qualified human assets, Kuveyt Türk is getting one step closer to its target of becoming one of the top ten banks in Turkey each and every day.

obliged market players to adopt a risk-focused approach when shaping their plans for the future and investment plans.

Turkey, having recently become a regional force thanks to its strategic geographic location and a dynamic social structure with a predominantly young population, has continued the successful economic performance it had attained in 2010 with a growth of 8%. The Turkish economy maintained its export-driven growth performance, despite the uncertainties of the global economy. It has rendered Turkey more prominent before the international economy authorities. Accordingly, while the ratings for leading developed countries are being significantly reduced, the international credit rating agency, Standard&Poor's, has designated Turkey in the investment grade category - an affirmation of the increasing confidence in the Turkish economy by international markets. Driven by this positive conjuncture, our Bank, with vast experience in international banking, and a significant business volume, wishes to materialize more comprehensive financing projects on foreign trade in the coming term.

Having shaped its strategies and policies in line with its goal of becoming one of the top ten banks in Turkey by 2018, Kuveyt Türk increased the number of its employees to 3,326 and its branches in Turkey and abroad to 180 in the year 2011 for the purpose of delivering higher quality services to its clients. Our Bank has increased its equities to TL 1.47 billion in 2011 with an increase of 15.4%, up from TL 1.28 billion in 2010. The total assets reached TL 14.5 billion at the end of 2011. As a reflection of these successful financial results, Kuveyt Türk posted a profit of TL 232 million in 2011. Having embraced the principle of developing permanent relations with its clients based on profit sharing, Kuveyt Türk aims to further develop its service network in terms of speed and quality and to continue its successful financial performance well into the future.

Our Bank issued its second SUKUK based on Rent Certification in 2011, offering an external source of US\$ 350 million for the Turkish economy.

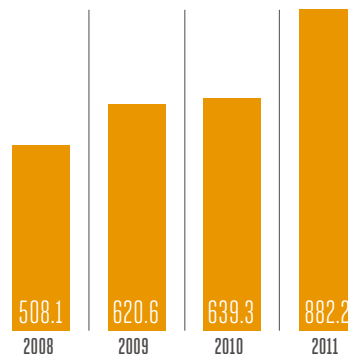
Kuveyt Türk has increased the number of its employees to 3,326 and its branches in Turkey and abroad have risen to 180 during 2011, for the purpose of delivering higher quality services to its clients.

**TL 882.2 MILLION**

**Consistent Increase in Profit Share Revenues**

The profit share revenue of Kuveyt Türk, with its sustainable corporate structure, have increased from TL 639.3 million to **TL 882.2 million** in 2011.

**Profit Share Revenue (TL millions)**



Contribution to the development of Turkey is regarded as an integral component of the key activities by Kuveyt Türk. The Bank has continued guiding the sector in 2011 as well with pioneering products delivered for its clients. After the first SUKUK issuance of US\$ 100 million in 2010, our Bank issued its second SUKUK based on Rent Certification in 2011, offering an external source of US\$ 350 million for the Turkish economy. Filling an important gap in the finance sector with products such as Gold Swap, Gold for Gold, Gold Check and a Gold Plus Gold Exchange Mutual Fund, Kuveyt Türk has leveraged alternative distribution channels in this segment and continued increasing the number of clients at a rapid rate in 2011.

Fortunately, with its innovative and comprehensive product range, steadily developing service network in compliance with the criteria of speed and quality and qualified human assets, Kuveyt Türk is getting one step closer to its target of becoming one of the top ten banks in Turkey. I would like to extend my thanks to our main partner, Kuwait Finance House, which has guided us with its experience and expertise in line with this target, our business partners, employees and clients. We are hoping to achieve many more successful projects in the coming activity term while moving towards the goal of joint earnings.

Respectfully,

**MOHAMMAD S.A.I. AL OMAR**  
CHAIRMAN



## MESSAGE FROM THE CEO

# We are carrying our corporate structure into the future with our accomplishments.

## 15.4% INCREASE IN EQUITIES

With its total equities reaching TL 1.47 billion and a capital adequacy ratio of 16.28% as of the end of 2011, Kuveyt Türk has proven is one of the strongest players in the sector.



Esteemed Shareholders,

The year 2011 witnessed uncertainties in global economies and an increase in the fluctuations of financial markets. The structural problems that surfaced alongside the financial crisis of 2008 and the failure to come up with permanent solutions for the public debt crisis that struck the economies of the Euro Zone were conclusive factors in the emergence of this negative outlook. On

the other hand, Turkey, regarded as one of the top 15 economies across the world, continued the successful performance it attained in 2010 and had a growth rate of 8% in 2011; it retained its perception as a safe haven for local and foreign investors. Thanks to the strong financial structure recently established by our country, Kuveyt Türk has secured successful results in 2011 as well in terms of the amount of funds offered to clients, profitability, number of branches opened and

equity profitability. It has taken solid steps to convey its corporate structure into the future.

The pioneer of firsts and innovations in the field of interest-free banking, Kuveyt Türk, operating from a single branch in 1989, now conducts its activities with an effective service network with 180 branches and 3,326 employees, among the best in the sector. Our Bank has achieved sustainable financial performance in line with our target to become

Having pioneered in the institutionalization of gold banking in Turkey, Kuveyt Türk has used alternative distribution channels such as ATMs and Gold Kiosks effectively. It added 60,000 new clients in its portfolio in this segment in 2011.

one of the top ten banks in Turkey by 2018. We have increased our total assets to TL 14.5 billion in 2011, an increase of 51.5% compared to the previous year; the total of funds collected reached TL 10.03 billion, an increase of 34.1%. As for loans, another area where Kuveyt Türk displayed spectacular performance, funds totaling TL 10.25 billion have been offered as loans to our clients. With total equities reaching TL 1.47 billion and a capital adequacy ratio of 16.28% as of the end of 2011, Kuveyt Türk has proven once again that it is one of the strongest players in the Turkish finance sector.

Thanks to easy access of our main partner Kuwait Finance House to international funds and its wide global correspondent network, Kuveyt Türk has significant accomplishments in the field of international banking in the 2011 activity period. Our Bank obtained a financing opportunity of US\$ 100 million in 2010, following the first SUKUK issuance in Turkey. Last year, it has successfully completed the issuance of a second SUKUK with a value of US\$ 350 million, with a term of five years. Different from the previous SUKUK issuance, it was affected based on a Rent Certification through our affiliate KT SUKUK Varlık Kiralama A.Ş. This transaction received a demand of 1.6 from prominent financial circles across the world, revealed the respectable position of Kuveyt Türk not only in the domestic market but in the international markets as well.

Having pioneered in the institutionalization of gold banking in Turkey with products such as Gold Swap, Gold for Gold, Gold Check and Gold Plus Gold Exchange Mutual Fund for its clients, Kuveyt Türk has used alternative distribution channels such as ATMs and Gold Kiosks effectively. It added 60,000 new clients in its portfolio in this segment in 2011. In line with the increasing significance of precious metal banking across world markets, our Bank aims to become prominent in this segment with projects of high added value in the coming term.

Kuveyt Türk, directing its activities in line with the slogan "Growing Through Our Values",

The SUKUK transaction effected utilizing a Rent Certification through our affiliate KT SUKUK Varlık Kiralama A.Ş. received a demand of 1.6 from prominent financial circles across the world.

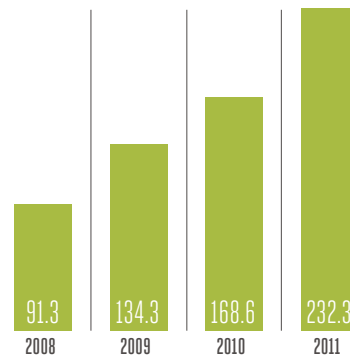
Kuveyt Türk, directing its activities in line with the slogan "Growing Through Our Values," maintains its leading position in banking and in the social responsibility area with reference projects it has undertaken.

**TL 232.3 MILLION**

**Net Term Profit**

Kuveyt Türk, one of the most profitable banks in Turkey, increased its net term profit from TL 168.6 million to **TL 232.3 million** during 2011.

**Net Term Profit**  
(TL millions)



maintains its leading position in banking and in the social responsibility area, with the reference projects undertaken for the purpose of protecting and preserving the historical-cultural heritage in Turkey. Kuveyt Türk has been supporting the restoration of historical monuments since 2005; after the restoration of the Istanbul Azarkapı Saliha Sultan Public Fountain and the Bursa Kozahan Ablution Fountain, the Bank has undertaken the restoration of the Ortaköy Mecidiye Mosque, the very symbol of Istanbul. The restoration efforts carried out under the supervision of the General Directorate of Foundations are targeted to be completed by mid-2012. In addition to its financial and operational accomplishments, Kuveyt Türk deems that conveying cultural and historical assets to coming generations is one of the factors rendering its corporate structure sustainable; it plans to continue with similar social responsibility projects in the coming term.

Fortunately, thanks to the strong position of our main partner Kuwait Finance House in international banking and our Bank's vast experience of nearly 22 years in the sector, we are determined to carry out profitable business processes in the coming term as well, in line with our targets and strategies. Our target during this process will be to make the best use of the opportunities and risks that will emerge and to add value to the funds of clients with whom we cooperate as per the principle of profit partnership.

I would like to extend my deepest gratitude to our main shareholder Kuwait Finance House, business partners, employees and clients, who have all contributed to the rise of the Kuveyt Türk brand, which has become synonymous with success. It is my hope to share the earnings and the bliss of the bright future of our Bank with our shareholders.

Sincerely,

**UFUK UYAN**  
CEO

## REVIEW OF OPERATIONS IN 2011

# Fast and high-quality service

The Direct Collection and Debiting System, a cash flow and payments system designed to meet the financial needs of corporate banking clients, was rolled out successfully in 2011.

### CORPORATE AND COMMERCIAL BANKING

Operating in the corporate and commercial banking segment with the objective of meeting the needs of large and medium-sized industrial and commercial enterprises with interest-free financial products, Kuveyt Türk is steadily growing its customer portfolio thanks to its competent human resources and corporate structure organized in accordance with latest developments in technology.

Focusing on increasing service quality in keeping with its principle of continuous development, the Bank is organized on the basis of firm, sector, segment and region in the corporate and commercial banking segment and achieved major productivity gains in business processes in the most recent period.

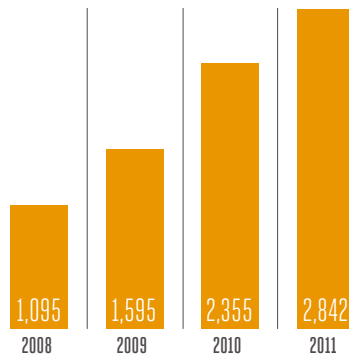
Loan and deposit rates followed a volatile trajectory in 2011 as a result of new Central Bank of Turkey regulations regarding deposit reserve requirements. In addition, the concerns about the sustainability of sovereign debts in Euro Zone countries such as Greece, Portugal and Spain had negative impacts on the financial markets. Despite this external source of negativity, the Turkish economy and banking system maintained their successful performance in 2011. Executing successfully in corporate and commercial banking as well as in all other lines of business, Kuveyt Türk supported the real sector by extending funds to the tune of US\$ 7.5 billion, US\$ 4.2 billion of which in cash loans and US\$ 3.3 billion in non-cash loans.

Kuveyt Türk introduced Forward Transactions Backed by Line of Credit, in addition to margin forward transactions.

TL 2.8 BILLION

Standing out with its fast and high-quality service approach, Kuveyt Türk's corporate and commercial banking participation funds reached **TL 2.8 billion** as of year-end 2011.

### Corporate and Commercial Banking Participation Funds (TL Million)



Due to the Arab Spring that took the Middle East and North Africa countries under its spell one after the other, the Bank evaluated the financing demands of foreign trade and contracting companies doing business in these regions very selectively. However, Kuveyt Türk continued to support the domestic contracting and investment projects uninterruptedly.

Embracing the principle of a high-quality and fast service approach, Kuveyt Türk's Corporate and Commercial Banking Group registered major accomplishments in 2011 in accordance with its financial targets and expanded its client portfolio by 25%, with the major portion of the growth coming from the medium-sized customer segment. As a result of this surge, Kuveyt Türk's total number of corporate and commercial segment clients reached 30 thousand while the contribution of this segment to the Bank's total participation funds reached TL 2.8 billion.

Kuveyt Türk aims to sustain its successful performance in corporate and commercial banking in 2012 and continue to grow its customer portfolio and participation funds steadily. The Bank pays particular attention to the foreign trade sector in order to achieve these goals.

### Symbol of innovative products in corporate and commercial banking

Developing unique products and services for the ever-growing customer needs and expectations, Kuveyt Türk's Corporate Banking Product Development Department helps the Bank sustain its accomplishments in corporate and commercial banking.



The major products and services developed by the Department are as follows:

- The Direct Collection and Debiting System, a cash flow and payments system designed to meet the financial needs of corporate banking clients, was rolled out successfully.
- In line with the latest developments in the banking industry, the Financing with Early Payment Option facility was introduced in response to customer needs and demands.
- In order to facilitate the business dealings of corporate clients, the Continuous Check Program was developed and offered to customers free of charge.
- After the initiation of forward foreign exchange transactions in 2007, Kuveyt Türk added British pound sterling, Swiss franc and Japanese yen quotations to the foreign currencies traded to better serve its client base and to provide advantages to its customers who deal in different currencies. Kuveyt Türk enhanced its forward product with new functions in 2011 in response to customer demands and market trends.

#### Gold Forward

After achieving a major breakthrough with the initiation of forward foreign exchange transactions in 2007, Kuveyt Türk, the trailblazer of participation banking, broke more new ground in the Turkish banking industry and launched forward gold transactions in 2009.

#### Forward Transactions Backed by Line of Credit

Operating on the main principle of meeting customer needs and demands at the highest quality standards, Kuveyt Türk introduced Forward Transactions Backed by Line of Credit, in addition to margin forward transactions.

#### Basket Loans

Basket Loans are products offered by Kuveyt Türk as a first in the sector that allow customers who want to mitigate or diversify foreign exchange risk with foreign exchange-indexed loans to borrow in two or three different currencies for the same project.

Kuveyt Türk enhanced the forward product with new functions in 2011 in response to customer demands and market trends.

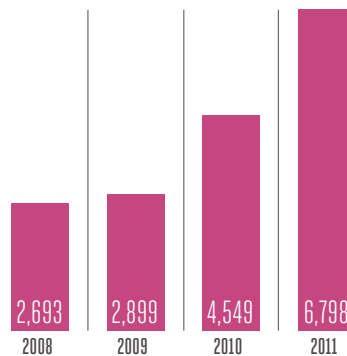
Kuveyt Türk supported the real sector by extending funds to the tune of **US\$ 7.5 billion**, US\$ 4.2 billion of which in cash loans and US\$ 3.3 billion in non-cash loans.

**TL 6.8 BILLION**

#### Corporate Banking Loans (2011)

Performing successfully in the Corporate and Commercial Banking business line in 2011, Kuveyt Türk increased its lending in this segment by 49% to **TL 6.8 billion**.

#### Corporate and Commercial Banking Loans (TL Million)



## REVIEW OF OPERATIONS IN 2011

# Sound loan appraisal process

Thanks to its sound loan appraisal process, Kuveyt Türk has one of the highest international credit ratings among all financial institutions in Turkey.

### LOANS

#### Corporate and Commercial Loans

The Corporate and Commercial Credits Department's function is to submit requests received from the branches as well as the Financial Analysis and Intelligence (FAI) studies and reports that it drafts to the related committees. It updates the loan appraisal processes in cooperation with the Bank's related units in accordance with the latest developments in the banking industry.

Assessing the projects they evaluate with particular focus on repayment and collateralization, Kuveyt Türk's loan specialists employ methods such as customer visits, financial analysis, and information gathering and reporting. Thanks to its sound loan appraisal processes, Kuveyt Türk has one of the highest international ratings among all financial institutions in Turkey.

The Corporate and Commercial Credits Department meticulously examined the financial position of companies requesting loans and made determinations on 12,405 loan applications in 2011. Loan assessments are conducted in accordance with such criteria as customer visits, financial standing of the companies, and the type of investment the requested line of credit will be used for.

As of year-end 2011, Kuveyt Türk evaluated 3,247 new loan requests and reached US\$ 6.1 billion in new loan originations.

The Corporate and Commercial Credits Department meticulously examined the financial position of companies requesting loans and made determinations on 12,405 loan applications in 2011.

The reports of the Financial Analysis and Intelligence Department, which drafted credit appraisal reports on 437 companies in 2011, also play a decisive role in minimizing risk and maintaining profitability in the Bank's lending decisions.

TL 6.1 BILLION

#### Total New Loan Originations

As of year-end 2011, Kuveyt Türk evaluated 3,247 new loan requests and reached US\$ 6.1 billion in new loan originations.

As part of the initiative to restructure the Bank's corporate lending process launched in 2008 to improve the speed and quality of service provided to clients, the software used by the Financial Analysis and Intelligence Department was upgraded and branch corporate marketing personnel were administered nine-day classroom training on theory and contemporary applications as well as three-month on-the-job training.

The marketing personnel who successfully completed these training courses were endowed with the authority to draft credit appraisal reports on companies.

#### Financial Analysis and Intelligence

The Financial Analysis and Intelligence Department's function is to draft credit appraisal reports on companies applying for loans as the basis for the final determinations of credit committees. It develops these reports based on various criteria such as the business, characteristics, capacity, liquidity, financial position and profitability of the companies as well as intelligence at hand and other market information. In addition, it is of crucial significance to accurately identify customer needs as part of the comprehensive analysis of repayment terms, amount, maturity, collaterals and pricing of the loan. The reports of the Financial Analysis and Intelligence Department, which drafted credit appraisal reports on 437 companies in 2011, also play a decisive role in minimizing risk and maintaining profitability in the Bank's lending decisions.

# Effective and extensive service network

In the Small Business Banking segment, Kuveyt Türk extended a total of US\$ 1.3 billion in TTK (Central Union of Turkish Agricultural Credit Cooperatives) loans and working capital loans in 2011.

## RETAIL AND SMALL BUSINESS BANKING

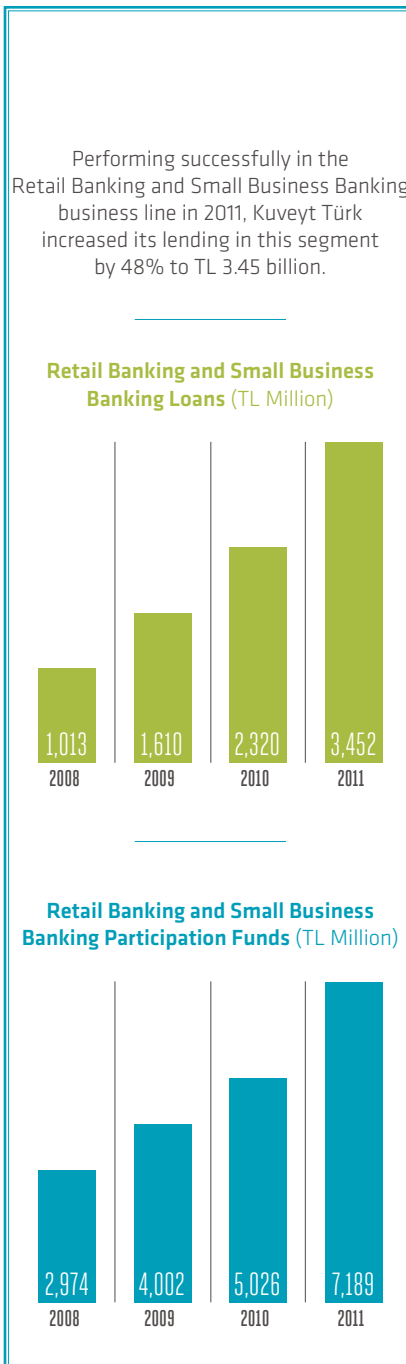
As the first participation bank to offer retail banking services, Kuveyt Türk continued to perform successfully in this segment in 2011 through a service network of 180 branches, two of which are located abroad; ATMs located in major commercial and industrial hubs; the internet branch designed in keeping with the latest technology; and its telephone banking infrastructure. The Bank recorded major gains in its customer portfolio in this segment throughout the year thanks to the products and services it unveiled particularly in 2010 including Sales Plus that offers an installment plan for purchases independent of the POS and the member merchant, and the İhtiyaç Card that provides the opportunity to make payments in up to 36 monthly installments for purchases made in every store, even though the card itself expires in three months.

Kuveyt Türk extended a total of US\$ 630 million in consumer loans in 2011; home mortgages made to the ongoing and completed housing projects constitute 25% of the Bank's overall consumer loan portfolio.

In the Small Business Banking segment, Kuveyt Türk extended a total of US\$ 1.3 billion in TTK (Central Union of Turkish Agricultural Credit Cooperatives) loans and working capital loans in 2011. As a result, the Bank's total lending in the Retail Banking and Small Business Banking segment reached US\$ 1.81 billion.

The total funds acquired from Retail Banking customers stands at US\$ 3.8 billion as of year-end 2011.

In the 2012 fiscal year, the Bank will continue to focus on expanding its branch and alternative distribution channels and delivering its innovative product and service lineup to a larger number of customers.



Kuveyt Türk, whose innovative approach made major contributions to the development of participation banking in the retail banking segment, offered the following major products and services to its clients in 2011:

### Profession-Based Packages

Packages consisting of products for lawyers, financial advisors, pharmacists, physicians and engineers were offered for existing Kuveyt Türk clients as well as new customers. The packages feature advantageous banking products such as financing at attractive profit shares, free PINmatic, free money transfers and EFT transactions at the internet branch, and special quotations for foreign exchange transactions performed at the internet branch.

### Neova Sigorta

Focused on meeting all financial needs and expectations of its customers in accordance with interest-free banking principles, Kuveyt Türk established a partnership with Neova Sigorta and added insurance services to its portfolio of products in 2010. The products offered by the Bank to clients as part of this effort include need-driven products such as comprehensive automobile insurance, personal accident insurance and earthquake insurance.

### Working Capital Support Line of Credit

This is a loan agreement executed with customers who have a working capital line of credit with the Bank. Kuveyt Türk customers are allowed to use this line of credit of up to TL 10,000 for bill and promissory note payments only. This loan is provided without a package fee or a commission. The Bank only charges the customers the cost of inflation for the number of days they draw down this line of credit.

### Loan Guarantee Fund (KGF)

In addition to the Treasury-Supported transactions, Kuveyt Türk successfully completed the initiatives to extend funds



## REVIEW OF OPERATIONS IN 2011

backed by the proprietary capital of the Loan Guarantee Fund (KGF) in 2011. Consequently, the Bank began accepting loan applications from customers who want to borrow under the loan guarantees of the KGF.

### Credit Cards

**Online Credit Card Applications:** Kuveyt Türk implemented a new process in accepting credit card applications thanks to its developing technological capabilities and systems infrastructure. The Bank transitioned from a credit card application process where customers fill out paper forms and the information on these forms are entered manually into the system to a model where customers enter their applications directly into the online system and the requests are put in process immediately. As a result, the Bank's workload was reduced while the applications are processed more quickly.

**Electronic Statement:** In 2011 Kuveyt Türk updated the content and design of the e-mails sent to the customers who receive their account statements via electronic mail. Thanks to the upgraded e-statement infrastructure, the Bank began providing its credit card customers with service quality that is richer visually and more satisfactory content wise. In addition, the new infrastructure provides new channels to promote Kuveyt Türk's new products and campaigns more actively.

**Scrapped Annual Card Fees for E-Statement Customers:** As part of a new practice, the Bank scrapped the annual credit card fees and card renewal fees for retail cardholders who opt to receive their statements via email instead of snail mail. As a result, the Bank achieved both cost savings and environmental preservation through reduced paper consumption.

**3-D Secure Dynamic Password:** In an effort to provide a more secure online shopping experience to Kuveyt Türk customers, the Bank switched from a static 3-D secure password to a dynamic 3-D secure password. Customers complete their transactions by entering one-time passwords (OTP) sent to their mobile phones during the transaction, as a result of which fraud is prevented.

**VISA Contactless Certification:** Kuveyt Türk completed the contactless certification for VISA cards and began issuing VISA paywave licensed cards.

### Alternative Distribution Channels (ADC)

**Web Site and Internet Branch:** Customers who are enjoying the privilege of working with Kuveyt Türk can obtain detailed information about the Bank's products and services from the Bank's corporate web site. The user-friendly web site provides up-to-date financial information, particularly financial reports, both in Turkish and in English. In addition, the web site also serves as an entry point to Kuveyt Türk's Internet Branch.

Kuveyt Türk web site, which was overhauled in 2011 in light of the latest advances in technology, was acknowledged with the "Best in Class" award, the biggest prize, in the "Financial Services" category at the Interactive Media Awards.

Customers can perform all banking transactions quickly at the Kuveyt Türk Internet Branch that was developed in light of the latest technologies.

Transactions performed via the Internet Branch, which provides comprehensive solutions to both retail and corporate customers, are free of charge. Kuveyt Türk's Internet Branch provides its customers user-friendly access and a secure service infrastructure featuring a large number of security solutions including Account Locking, Identified Receiver Limitation, Country and IP Restriction, SMS Passwords, PINmatic, and Turkcell Mobile Signature. A wide range of products that make life easier for customers including gold, silver and platinum transactions; wholesale money transfers; POS transaction information; stock trading; bill, tax and customs duty payments; and purchasing prepaid minutes can be conducted conveniently at Kuveyt Türk's Internet Branch.

**ATM:** Serving its clientele with a network of nearly 200 ATMs as of year-end 2011, Kuveyt Türk continued to install ATMs outside of the branch premises as well. The Bank launched sales of physical gold at the ATMs during the year as a first in the world and drew

heavy interest from both the domestic and international media with this groundbreaking service.

Opting to install ATMs in locations where no other financial institutions have ATMs, Kuveyt Türk initiated a project to install Recycle ATMs as a pilot application and procured equipment from suppliers in 2011.

In 2011 the Bank successfully completed process improvements for evaluating requests for ATMs and taking quick action in response to these requests. As a result of these efforts, Kuveyt Türk's transaction volume through the ATM channel reached TL 1 billion while the number of ATM transactions rose to the order of millions.

**POS:** Kuveyt Türk, which does not do business with its customers on the basis of escrow accounts pursuant to the resolution of the Advisory Board, developed and launched the POS Participation Account as an alternative product to address the possibility of loss of revenue. The Bank executed a Shared POS Agreement with Multinet, an offline payment system that has a large POS network in the dining and food industry, and began offering interested customers two products through a single POS device. Following advances in technology closely and incorporating them in its systems, Kuveyt Türk invested heavily during the year, especially in the Contactless POS terminals that are expected to take off in the coming years; the Bank increased the number of its Contactless POS devices in the field and organized campaigns to encourage shopping. The Bank's total turnover through the POS channel reached TL 1.5 billion and the number of transactions reached 12 million in 2011.

**ATS:** The Automated Teller Safe (ATS), which is a new product in Turkey, was launched as a pilot project at the Bahçeşehir Branch for the first time in 2010. In 2011 this product was integrated with the new generation banking platform infrastructure. As a result, the ATS device became manageable from the cash deposit and cash withdrawal screens used in every branch.

Under the coordination of the R&D office, Kuveyt Türk is undertaking an initiative to develop the unmanned branch project that allows execution of all banking transactions on a self-serve basis or with a Call Center customer representative.

**Unmanned Branch (XTM):** Under the coordination of the R&D office, Kuveyt Türk is undertaking an initiative to develop the unmanned branch project that allows execution of all banking transactions on a self-serve basis or with a Call Center customer representative. Product development efforts are ongoing to equip the device, which can already perform money transfers and show account balances, with the capability to carry out other banking transactions and more. The device, which will also feature high-tech applications such as palm-vein scan and signature pad, was named XTM with the objective of being the ultimate, extreme banking experience.

**Moneygram:** Moneygram, the international money transfer service that previously allowed remittance in US dollars only, was enhanced with the option of euro transfers in 2011. In addition, the Bank defined new flows for MoneyGram processes compatible with the BOA infrastructure and accelerated efforts to integrate them with the new system. The goal is to perform all Moneygram transactions through BOA as of 2012. Process work was completed during the year to allow Moneygram transactions at Kuveyt Türk's Internet Branch, which will be overhauled in the near future.

**Mobile Banking:** Developing the mobile banking channel, the Bank launched an application through which customers can perform their transactions in a fast manner from any location. Kuveyt Türk customers can download the mobile branch app to their smartphones and use it free of charge since August 2011. iPhone and iPad users have the opportunity to download the app from the AppStore free of charge. The first version of the Mobile Branch allows customers to monitor their bank accounts, view transaction details and perform EFT and money transfer transactions. Kuveyt Türk is in the process of adding more functions to the app such as foreign exchange trading, gold trading and paying card balances. In addition, thanks to the Mobile PINmatic that is installed as part of the Kuveyt Türk Mobile Banking app, customers can log into the Internet Branch without having to receive SMS messages or use a pinmatic device. Mobile PINmatic does not require an internet connection once the Kuveyt Türk Mobile Banking application is downloaded to the smartphone.

## Deposits

**ÖSYM Collections:** Kuveyt Türk entered into an agreement with the ÖSYM (Measurement, Selection and Placement Center of Turkey) for collecting test fees and completed building the requisite infrastructure. Under the new system, fees for all tests administered by the ÖSYM can be paid at all Kuveyt Türk branches and the Internet Branch.

## Pilgrimage Collections for the Religious

**Affairs Administration:** Putting in service the systems infrastructure for the pilgrimage collections, Kuveyt Türk began collecting the Hajj and Umra fees through its branches.

**Bill and Tax Collections:** Adding nearly 30 new firms to the list of companies it accepts bill payments for in 2011, Kuveyt Türk accepts payments for electricity, water and natural gas bills at its branches as well as at its Internet Branch and via automatic bill pay orders. In addition, the Bank also accepts tax payments for municipalities affiliated with its collection service.

## Equity Trading

In early 2008, Kuveyt Türk signed an agency agreement with Bizim Menkul Değerler A.Ş. and began brokering equity trading. Executing stock trades via its Internet Branch and Call Center as well, the Bank has been steadily growing its brokerage client base.

## Precious Metal Banking

**Gold Support Transactions:** One of the most experienced precious metal banking providers in the industry, Kuveyt Türk further reinforced its support for gold manufacturing companies with its gold support products. Thanks to this service, producers can meet their raw material needs under more attractive terms.

**Silver and Platinum Trading:** In addition to giving customers the opportunity to trade in gold and invest in precious metals at market prices, Kuveyt Türk took its leadership position to a whole new level by offering its clients the opportunity to also invest in silver and platinum. Kuveyt Türk continues to be the only bank in Turkey to provide these services and keeps the silver and platinum products it buys on behalf of its customers at the Istanbul Gold Exchange.

**Kuveyt Türk Gold Gram:** Known for its innovative products such as Gold Depot Account, Gold for Gold Participation Account, GoldCheck and Gold Support, Kuveyt Türk further solidified its leadership in precious metal banking with the Gold Gram, its latest product in this segment. This product offers an alternative investment opportunity with low labor cost to those investors who want to trade in gold physically rather than via bank accounts, or those who want to deposit their gold in a bank. The Kuveyt Türk gold sold in all branches comes in 1, 2.5, 5, 10, 20, 50 and 100 gram coins and bars and is stamped by the prestigious Istanbul Gold Refinery. Sales and purchases can easily be made without a bank account or via a Turkish lira, US dollar or gold account at the branch. The Kuveyt Türk gold purchased from branches and other gold products carrying the certification of the Istanbul Gold Refinery (IGR) can be resold to all branches, after the necessary security checks are performed and as long as the package is not deformed. This product can also be traded in jewelry shops. In addition, customers can convert their gold to IGR-certified gold grams via jewelry shops.

**Gold for Gold Participation Account:** The Gold for Gold Participation Account, which can be opened with as little as 10 grams of gold, allows customers to save and earn a return at the same time. Every gram of gold deposited to this account is invested in the real sector and the ensuing profit is returned to the customer as gold. The Participation Account, offered in maturity options of 3 months, 6 months and 1 year, can be opened at Kuveyt Türk branches or via the Internet Branch, allowing customers to start saving immediately. The Gold for Gold Participation Account facilitates secure gold trading without the worries associated with transporting or storing gold. In addition, no labor cost is involved in these gold sales and purchases.

**Physical Gold Collection Campaign:** Gold collection campaigns are organized at Kuveyt Türk branches according to a predetermined schedule to deposit 24 carat gold grams in customer accounts in exchange for their gold jewelry items without any money changing hands.

## REVIEW OF OPERATIONS IN 2011

# Leading international practices powered by deep-rooted banking experience

Providing financing support for international projects, Kuveyt Türk is increasing the competitive edge of an ever-growing number of Turkish companies.

### TREASURY, INTERNATIONAL BANKING AND INVESTMENT BANKING

The International Banking Group is comprised of the Treasury, International Banking, Investment Banking, and International Organization & Investor Relations departments. The Group's activities consist of enhancing the Bank's competitive edge to provide a broader range of high-quality products and services to its customers in Turkey and making progress toward a regional structuring. In accordance with this core approach, the Group is assigned the following objectives:

- To establish and expand the global correspondent banking network that the Bank needs in the intermediation of foreign trade and international payment transactions,
- To invest the Bank's funds more effectively and profitably,
- To manage the Bank's foreign currency position and liquidity balance within the framework of the Bank's policies,
- To perform the necessary work to secure long-term and low-cost foreign funding in cooperation with international institutions using the Bank's overseas branch and correspondent banking network,
- To meet customers' funding needs through structured financing products such as sukuk, murabaha syndications and club-loan transactions,
- To increase the Bank's resource diversity and maturity through new products,
- To meet the medium- and long-term project financing needs of clients operating in the major industries such as energy, health care, education and manufacturing,
- To manage the process for meeting the international banking product and service needs of corporations with a qualified portfolio approach,
- To improve the Treasury products via innovative approaches, sustaining the Bank's competitive edge in this segment, and continuing to make positive

Kuveyt Türk, which has a branch in Bahrain and a subsidiary in Dubai under the business title of Kuwait Turkish Participation Bank Dubai Ltd., is considered to be the most important financial partner for investors looking to tap the Gulf Region funds.

The International Banking Group aims to expand its international correspondent network and service portfolio and increase the value it creates for Kuveyt Türk in the coming year.

After successfully issuing the three-year, US\$ 100 million SUKUK in 2010 as the first SUKUK transaction in Turkey and in Europe, Kuveyt Türk completed its second SUKUK issuance backed by Lease Certificates in 2011 to raise **US\$ 350 million**.

contributions to the Bank's profitability,

- To continue the Bank's leading and innovative role in establishing the interest-free capital markets in Turkey.

Kuveyt Türk made giant strides in International Banking in 2011. The first Sukuk issuance within the scope of Turkey's new regulations on lease certificates was undertaken by Kuveyt Türk in 2011. The five-year, US\$ 350 million, London Stock Exchange-listed issue that is considered a success story and a reference case in the international capital markets was awarded by the international financial media, similar to the way Kuveyt Türk's first sukuk issue was acknowledged in 2010.

Kuveyt Türk's Bahrain Branch displayed a successful performance in securing foreign funds and particularly in channeling Gulf Region funds to Turkey in 2011. Kuwait Turkish Participation Bank Dubai Ltd., a Kuveyt Türk subsidiary located in Dubai that commenced operation pursuant to the banking license it obtained in 2009, began making major contributions to the Bank's liquidity management and in meeting the financing needs of companies in terms of obtaining funds from the Gulf Region. Beginning to break new ground in foreign trade financing, account services and money transfer products in addition to international borrowing, Kuveyt Türk's subsidiary in Dubai continued to play a significant role in 2011 as an organization solidifying Kuveyt Türk's competitive edge in the Gulf Region. The Mannheim Financial Services Branch that began operations in Germany in 2010 continued to be the center of attention for customers in Germany and throughout Europe who favor participation banking. The Mannheim Branch had a productive operating year in 2011 from the viewpoint of uncovering the existing business potential and flashing promising signals for the future. Kuveyt Türk was once again the first and only interest-free banking institution in the Euro Zone this year that conducts nothing but interest-free banking activities. Kuveyt



Türk's Kazakhstan Representation Office, the fourth overseas enterprise of the Bank, continued to conduct market research and publicity activities in Kazakhstan, which has been chosen as the center for the Bank's plans to expand in Central Asia. In accordance with its fundamental objective of being a regional bank, Kuveyt Türk carried on with its efforts to open branches in the Erbil province of Northern Iraq and in Qatar and is now at the latest stages of inaugurating both branches.

Thanks to its robust capital structure and the active presence of its main partner Kuwait Finance House in the Gulf Region, Kuveyt Türk has the capability to provide funding for large-scale local and international projects, particularly in Turkey and the Gulf Region. Financing the large projects of the private sector, Kuveyt Türk's International Banking Group assists Turkish companies in enhancing their competitiveness in global markets.

The projects launched by the International Banking Group in 2011 made major contributions to accomplishing Kuveyt Türk's objectives of becoming an international brand, meeting the banking needs of its customers domestically and internationally, and becoming the preferred business partner of its clients in foreign trade thanks to its effective global correspondent network.

#### **Treasury Department**

Responsible for the management of the Bank's liquidity and market risks, the Treasury Department continued to pursue a risk and profitability-oriented approach in 2011.

The number of banks Kuveyt Türk extended funds to in the interbank market increased thanks to its sound capital structure and high level of liquidity. Able to transact with every bank chartered in Turkey, the Bank also continues to expand its business with stable banks abroad.

Launching the "Treasury transactions platform" for its featured customers during 2011, Kuveyt Türk increased its foreign exchange trading volume by more than 100% to US\$ 45 billion.

After launching Turkey's first interest-free Gold Exchange-Traded Fund, Goldplus (GOLDP), the Bank initiated efforts to issue the world's first interest-free Silver Exchange-Traded Fund, Silverplus, in 2012.

After opening its Kapalıçarşı branch, Kuveyt Türk became a major player in gold bullion trading.

Kuveyt Türk ranked first among banks in terms of trading volume on the Istanbul Gold Exchange in 2011. The Bank also became the first and only bank in Turkey to be a member of the London Bullion Market Association (LBMA), which is the association of international players involved in precious metals trading. The Unit strives to expand its market-making activities in Turkey and also become a major regional market actor.

#### **International Banking**

Using its active correspondent relations with more than 1,000 financial institutions in over 100 countries, the International Banking Department successfully executed all of the Bank's international activities, particularly international payments, external guarantees, foreign trade and overseas financing transactions, in 2011. The Department supported international banking activities through Kuwait Turkish Participation Bank Dubai Ltd., Kuveyt Türk's subsidiary in United Arab Emirates; the Bahrain Branch; the Germany Financial Services Branch; and the Kazakhstan Representation Office, in addition to its correspondent banking network.

Fitch Ratings had raised Kuveyt Türk's long-term TL credit rating from "BBB-" to "BBB" in December 2010 and revised the outlook on the Bank's rating to positive while reaffirming the Bank's long-term foreign currency credit rating as "BBB-". Kuveyt Türk maintained its investment-grade standing in 2011 with its steady performance throughout the operating period.

As a result of the ratings upgrades of the previous two years that raised Kuveyt Türk to an investment-grade bank and then further improved this status, international financial institutions increased the lines of credit they allocated to the Bank and improved the

terms under which the Bank can access these facilities. All of these developments took the quality of international banking services the Bank provides to its clients to a higher level.

Affirming its expertise and experience in international banking with its ratings from international credit rating agencies, Kuveyt Türk continued to provide financing services to foreign trade companies at full speed in 2011. Establishing ties primarily with Turkish companies doing business in the Gulf Region, Middle East and Turkic Republics during the year, the Bank generated effective solutions for its clients in such transactions as letters of credit and counter guarantees that require collaboration with correspondent banks. Compared to previous years, Kuveyt Türk increased its competitiveness in pricing particularly in overseas letters of guarantee in 2011.

After the establishment of the Foreign Trade Marketing Unit that was formed under the International Banking Department with a new service concept, positive improvements were recorded in the quality and speed of service provided to the customers.

In an attempt to gather speed in export transactions similar to its momentum in import and international money transfer transactions of the previous years, the Bank entered into an agreement with ICIEC, a subsidiary of the Islamic Development Bank, in regard to insuring export receivables.

Compatibly with Kuveyt Türk's emphasis on international banking activities in its growth strategy, the International Banking Department will continue to deepen its relationships with overseas financial institutions and expand its international banking network in accordance with the Bank's priorities and its customers' needs. As part of this effort, Kuveyt Türk established correspondent banking relations with more than 200 banks in 2011.

#### **International Organization & Investor Relations Department**

The Department's core duties and responsibilities consist of establishing and administering the Bank's international

## REVIEW OF OPERATIONS IN 2011

branches, subsidiaries and representation offices as well as conducting economic research and publishing reports on economic developments.

The Department's primary objective with regard to its international organization function is to administer and coordinate the Bank's international branches, subsidiaries and representation offices; to draft feasibility reports on new countries or banks targeted by Kuveyt Türk; to present these reports to the senior management; and to contribute to the reinforcement of the Bank's international presence by increasing Kuveyt Türk's recognition in the countries where the Bank owns assets. Activities carried out by the Department in 2011 within this scope include the following: The Bank's subsidiary in Dubai obtained the authorization to broaden the scope of its license and began offering the full array of interest-free banking services. Kuveyt Türk's subsidiary in Dubai continues to expand its corporate client portfolio as a result of the increase in its line of credit allocation and lending limits. Kuveyt Türk acquired the necessary authorization from the Banking Regulation and Supervision Agency of Turkey (BDDK) to establish a financial subsidiary in Germany with a banking license and to open a branch in Erbil and initiated efforts in this direction. In addition, in an attempt to solidify its market position in the Gulf Region, the Bank obtained authorization from the BDDK to establish a financial subsidiary and to open a branch in Qatar and made the application to the related banking authority.

Furthermore, the Eco-Political Bulletin published monthly as part of this function informs employees about economic, political and financial developments in the countries Kuveyt Türk owns assets.

The Department's primary objective with regard to its investor relations function is to administer relationships between the Bank and third parties and the Board of Directors, to closely monitor related regulations as well as the developments in domestic and international markets, to conduct economic research and studies, and to present the results to senior management, employees and customers via reports and bulletins in accordance with the core corporate governance

principles it has adopted during and after the public offering process.

The Department fulfills the responsibilities regarding its investor relations function under two categories: Public offering efforts and economic research. While no determination was made with regard to the Bank's public offering, the Department closely monitors the amendments to the Capital Markets Law and new regulations and reports on recent public offerings as well as the performance of shares of listed participation banks.

The major part of the initiatives conducted in the economic research category consists of monitoring the developments in the global economy and Turkish economy and sharing the resulting periodic reports with internal and external customers. The Department's main products in this area are the daily and monthly economy bulletins sent to 1,200 internal and 2,500 external customers; Monthly Bulletin and Monthly Monitor publications prepared in English to be sent to nearly 700 international institutions and correspondent banks; and information notes on periodic results of participation banks and the developments, new regulations and amendments to legislation in the markets.

Similarly, the Department coordinates preparatory work for the weekly Assets and Liabilities Committee meetings as part of its investor relations and economic research function. In addition, the Department drafts global and national economic assessment reports, in English and in Turkish, for the senior management prior to each Board of Directors meeting.

### The Department's Work Plan for 2012

In investor relations and economic research, the Department aims to diversify its economic reports while monitoring general developments in the industry and the markets regarding the public offering. In addition the Department also plans to publish new reports on Investors Relations Presentations regarding the Bank's periodic results and economic-financial vehicles.

In the area of international organization, the Department plans to continue working on integration of existing overseas assets,

drafting business plans and making them more active in 2012 as well as conducting market research on potential countries. In addition, completion of the processes of establishing a financial subsidiary in Germany with banking license, opening a branch in Erbil, and founding a financial subsidiary/opening a branch in Qatar and commencements of the Bank's activities in these countries are also among the goals for 2012.

### Investment Banking Group

#### Investment Banking Department

The Investment Banking Department played a major role in ensuring that Kuveyt Türk continues to break new ground in the banking industry and maintained its successful performance in 2011.

The Department maintained and expanded its stable operations thanks to its longstanding deep-seated healthy relationships with international financial markets; experience in various sectors, business lines, transactions and products; and solid know-how. Serving in intermediation and advisory roles in many financing projects in the Gulf Region to date, Kuveyt Türk became the bank of choice of the Region's reputable and leading financial institutions in this field.

Kuveyt Türk continues to work on gaining maturity and price advantage by diversifying its sources of funds resulting in increased competitiveness, and providing lower cost and longer term financing facilities to its clients. As part of its efforts to expand funding facilities, the Bank issued a three-year, US\$ 100 million SUKUK security in August 2010 as the first bank-issued SUKUK bond in Turkey and in Europe. Subsequently, in October 2011 Kuveyt Türk completed its second SUKUK issuance as well as the first and only lease certificate SUKUK in Turkey. Issued on October 31, 2011 with a maturity of five years, the US\$ 350 million SUKUK was oversubscribed by a wide margin and it was a resounding success. Issued at a lower cost compared to its counterparts, this SUKUK security was listed on the London Stock Exchange. Kuveyt Türk went on a comprehensive road show covering five countries including major financial centers such as Singapore, Kuala Lumpur, Dubai, Abu Dhabi, Zurich, Geneva

## The Treasury Marketing and Product Development Department, which makes significant contributions to Kuveyt Türk's corporate development, continued to perform successfully in 2011 in terms of product activity and business volume.

and London before initiating the SUKUK transaction. In the final allocation investors based in the Middle East, Asia and Europe purchased 69%, 19% and 12%, respectively, of the SUKUK bonds. Banks purchased 81% of the issuance while asset management companies and insurance companies had an 8% share, sovereign wealth funds and supranational investors and agencies a 10% share, and private banking units a 1% share. This important transaction that brought new investors from the Gulf Region and the Far East to Turkey was rated "BBB-" by the international credit rating agency Fitch Ratings. Issuing the first security within the scope of the Capital Markets Board's communiqué on lease certificates, Kuveyt Türk executed the first implementation example of a capital markets product whose structure and taxation principles are stipulated in regulations and made a major contribution to the establishment and development of interest-free capital markets in Turkey.

Managing to increase the diversity and volume of its international structured financial products thanks to its innovative approach, the Department continued to gain market share throughout 2011. Continuing to offer products and services that can be classified as murabaha syndications, club transactions and structured financing transactions to its clients, the Investment Banking Department also has ongoing efforts to develop new products and alternative financing structures that will meet customer needs most effectively in an increasingly competitive environment.

As the unit of Kuveyt Türk in charge of project finance, the Investment Banking Department began to present the first examples of financing of energy projects in particular in the participation banking industry in 2011. Accepting applications to fund a large variety of investment projects including alternative sources of energy, infrastructure, company acquisitions and mergers, and building factories and manufacturing facilities, the Department began undertaking its first transactions particularly in financing hydroelectric and solar power plants.

Securing long-term resources by issuing SUKUK bonds, Kuveyt Türk will continue to provide long-term financing for the investment projects of its clients.

In 2011 Kuveyt Türk began to achieve the desired results from its corporate branches that were established in order to work with large-scale companies under more effective and productive conditions in accordance with its domestic and overseas branch network that is growing on solid ground, broadening client base, and its strategy to devise competitive marketing practices and to provide better service to its customers. Planning to expand its corporate branch network in 2012, Kuveyt Türk aims to leverage its experience and product diversity in investment banking to serve Turkey's leading corporations and multinational companies with conventional banking products as well as in high value-added areas including foreign trade finance, hedging-oriented derivative products and structured finance.

As in the previous years, the Department played an intermediary role in Gulf-sourced financing transactions. As a result, Kuveyt Türk became a preferred bank of many Gulf Region-based large-scale financial institutions. Continuing to make the resources it secures from the Gulf region via its Bahrain Branch available to its customers, the Department is increasing its transaction volume in this area within the framework of a business plan that is built on solid foundations.

### **Treasury Marketing and Product Development Department**

Having assumed a pioneering mission in the Turkish participation banking sector both new product development and effectiveness, the Treasury Marketing and Product Development made a contribution to the significant growth in new products and services offered to Kuveyt Türk customers as well as in treasury products transaction volume and income figures in 2011. In an effort to provide the branches with technical know-how to help them channel their efforts towards active and profitable customers and pursue effective marketing practices, the Department pursued several activities. These included focusing on potential branches, conducting many customer visits and providing technical know-how and experience support to the branches.

As a result of the customer visits, the number of customers for whom Kuveyt Türk renders market advisory and pricing service increased at a stratospheric rate. In accordance with a customer satisfaction-based business approach, the number of clients receiving service and advisory directly from the Department also increased sharply. As a result, Kuveyt Türk helped customers to stay informed and take faster action in money markets.

In addition, after the corporate branch began operation, the Department also started to support the branches in developing and marketing treasury products tailored to the needs of corporate segment clients. The Department focused on marketing efforts to provide custom service to clients at the Kapalıçarşı Branch in accordance with marketplace requirements. Kuveyt Türk continues to reinforce its leading market position with new products in this area to shield its customers from adverse money market developments.

The Department built the infrastructure for a platform that facilitates online pricing of Spot-Forward FX and Precious Metals transactions in 2011. The Platform that allows customers to trade directly in money markets without the need for a broker within the exclusive margins and position limits allotted to them is a software program that also matches executed customer transactions in the interbank market on a one-to-one basis with best-price filtering.

The Bank aims to execute a large portion of Treasury VIP client transactions on the Treasury Platform in 2012, which in turn will solidify Kuveyt Türk's leadership in Treasury products as a result of the increased competitive edge as well as access to new target customers and cross-marketing opportunities that will arise in the new favorable environment. Kuveyt Türk is targeting increased customer productivity, profitability and loyalty in an environment featuring fast service provision and reduced operational risk and working on developing new products that conform to the mission of providing high-quality service to achieve customer satisfaction.



## REVIEW OF OPERATIONS IN 2011

# Control processes that strengthen the corporate structure

The Financial Control and Reporting Group's core objective is to create an effective budgeting and reporting system based on accurate data to ensure reliable management.

### FINANCIAL CONTROL

The Financial Control and Reporting Group performs all analytical information management and notification tasks for tracking, controlling and budget-based planning and guidance of Kuveyt Türk's profitability and risk/resource productivity on the basis of customers, products and services, and profit centers.

The Financial Control and Reporting Group consists of four departments: Accounting, Financial Control, Budget and Management Reporting, and External Reporting. The Group's objective is to execute these functions with a superior quality service using its reliable technological infrastructure and specialist staff.

Operating like a command and control center, the Financial Control and Reporting Group fulfills the following responsibilities:

- Creating and improving the infrastructure of the Bank's complete accounting and record-keeping system, and overseeing the proper functioning of the system,
- Reporting identified problems in a timely manner so they can be responded to and resolved immediately,
- Creating an effective budgeting and reporting system based on accurate data to ensure reliable management,
- Generating the reports to be disclosed to the public and sent to public agencies promptly and based on accurate data.

The Financial Control and Reporting Group consists of four departments: Accounting, Financial Control, Budget and Management Reporting, and External Reporting. The Group's objective is to execute these functions with a superior quality service using its reliable technological infrastructure and specialist staff.

The Accounting Department aims to increase productivity by following the advances in technology and local and international laws and regulations as closely as possible in accordance with the vision and objectives of Kuveyt Türk.

The Accounting and Financial Control Departments are jointly responsible for resolving problems regarding accounting practices submitted by the branches and the Head Office, making suggestions to users and conducting the required training activities.

A Management Reporting Unit was created within the Budget and Management Reporting Department, which was restructured to allow the Senior Management to oversee the Bank's performance more closely.

### Accounting Department

The Accounting Department is responsible for the functioning of the Bank's accounting system. These tasks include ensuring that transactions are accurately reflected in records for financial statements and regulatory reports that must be prepared pursuant to the Banking Law, Turkish Accounting Standards, regulations and communiqués of the Banking Regulation and Supervision Agency, tax laws and other related legislation to be based on material facts. Other tasks are fulfilling tax and other responsibilities and liabilities and overseeing their payments, recording, payment and control of the Bank's expenses and fixed assets.

The main functions performed by the Accounting Department are as follows:

- Monitoring the Banking Law, Turkish Accounting Standards, regulations of the Banking Regulation and Supervision Agency, tax laws and other related legislation amendments related to the accounting practices and the Chart of Accounts, and making the necessary arrangements,
- Contributing to the preparation of the Bank's monthly, periodic and annual financial statements and monitoring the dealings with other units,
- Carrying out the transactions with shareholders, units, and public agencies,
- Taking part in internal and external audits, as well as in Banking Regulation and Supervision Agency independent audits,
- Conducting the transactions of the Bank with its domestic and overseas subsidiaries and affiliates, overseas branches and free zones, and performing the necessary controls,
- Ensuring that taxes and other liabilities overseen by the Head Office are fulfilled,

- creating the necessary records and performing their controls,
- Overseeing the approval and printing of the Bank's required books,
  - Conducting the reconciliation and control of the Bank's accounts at all domestic and foreign banks and correspondent banks,
  - Performing the Bank's accounting and financial control transactions related to its fixed assets,
  - Carrying out the Bank's interim and year-end inventory and checkout transactions,
  - Recording all bills and documents related to the Bank's purchases of goods and services, making the payments, and controlling the expenses and other related items,
  - Providing technical support, advisory service and training to the units, branches and product development departments in matters regarding accounting, legislation and other issues, as well as carrying out transactions related to accounting.

In accordance with the Bank's vision and objectives for 2014, the Accounting Department monitors technological developments and the domestic and international legislation closely to increase productivity, raise the level of internal and external customer satisfaction, support innovative product development processes, and facilitate continuous development.

#### **Financial Control Department**

The core duties of the Financial Control Department, which makes significant contributions to Kuveyt Türk's corporate development with its specialist and dynamic staff, are creating and developing a reliable accounting infrastructure, performing effective financial and accounting controls, and ensuring a realistic representation of the Bank's operating results and risk position.

The other main functions of Financial Control are as follows:

- Ensuring instant detection and correction of errors through periodic controls performed on a daily, weekly and monthly basis so all transactions will be reflected accurately in accounting records in accordance with the uniform system of accounts and the relevant legislation and communiqués,
- Facilitating the prompt generation of internal and external reports based on accurate and reliable data,
- Conducting analyses on the Bank and the banking sector to support Bank management's decision making process,
- Conducting daily controls and analyses of the Bank's income and expenses; overseeing the calculation of profit shares and the proper reflection of these on customers' accounts,
- Ensuring that the tax and similar liabilities of the Bank are tracked and fulfilled, providing advisories to units on tax-related matters and carrying out the correspondence with tax authorities,
- Providing accounting and systems infrastructure support to other divisions for their new products and demands, in addition to improving existing controls and establishing new control points.

The Accounting and Financial Control Departments are jointly responsible for resolving problems regarding accounting practices submitted by the branches and the Head Office, making suggestions to users and conducting the required training activities. In addition, these two departments are also tasked with performing functions such as conducting the necessary work for the monthly financial reports, undertaking the interim and year-end transactions, coordinating the efforts of internal and external audit processes, providing information to the statutory auditors, and preparing the requested information and documents.

The Financial Control Department's aim for 2012 is to increase service productivity and enhance customer satisfaction by leveraging the latest advances in information technology.

#### **Budget and Management Reporting Department**

Due to its strategic importance in financial control and planning, the budgeting function is a roadmap for every institution. Budgeting plays a critical role for the Senior Management to fulfill its command and control functions at Kuveyt Türk, which is increasing the number of its branches with each passing day in line with its growth targets. This role has become even more prominent in recent years as the basic variables in the markets proliferated, volatility increased, and the structure and nature of customers, products and risks began to change rapidly.

The Budget and Management Reporting Department's main functions include monitoring the performance of branches, controlling Kuveyt Türk's activities in accordance with its basic policies and strategies, and ensuring the sustainability of the Bank's financial and managerial integrity. In addition to these functions, the Department is also responsible for creating the financial roadmap for the current year and controlling and monitoring that the Bank's activities are conducted in accordance with this roadmap.

Another major function of the Budget and Management Reporting Department is to communicate the Bank's annual targets in line with the strategic goals set by the Senior Management and the management plans drafted to achieve these goals clearly to the related branches and units. As part of this effort, the Department monitors the financial development of management units at monthly intervals, identifies deviations, if any, assesses their causes and develops recommendations for corrective action.

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## REVIEW OF OPERATIONS IN 2011

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Conducting performance measurements and evaluations in accordance with the realization rates of targets, the Department prepares the reports the Bank's Senior Management needs.

A Management Reporting Unit was created within the Budget and Management Reporting Department, which was restructured to allow the Senior Management to oversee the Bank's performance more closely. This new Unit drafts reports for the Senior Management, shareholders, and the Bank's related units, branches and departments periodically or upon request and offers analyses and interpretations of the reports.

In addition, as part of the restructuring initiatives, a Reporting Database Unit was formed within the Budget and Management Reporting Department. The Unit is expected to perform the functions of ensuring that reporting tasks are carried out more dynamically, smoothly and promptly; strengthening the communication between the Department and the Information Technology Department; and generating many reports internally within the Department without resorting to the assistance of other units.

### External Reporting Department

The External Reporting Department's duties include putting together the information disclosed to the public or submitted to the public agencies pursuant to legal obligations as well as the reports drafted for the Bank's main partner Kuwait Finance House. As part of this effort, the Department drafts approximately 140 financial reports each year and sends these to public agencies on daily, weekly, bi-weekly, monthly, quarterly and annual intervals. The External Reporting Department has two main functions:

### Domestic Reporting

The domestic reporting tasks of the External Reporting Department consist primarily of drafting quarterly unconsolidated and consolidated independent audit reports and submitting them for the review of the independent auditors and preparing the other periodic and ad hoc reports submitted to public agencies. In addition, the statements and reports regarding legal and regulatory limits and ratios that must be monitored and attained pursuant to related laws and regulations (Capital Adequacy Ratio, Foreign Currency Net General Position, Credit Limits, Central Bank of Turkey Reserve Requirements, etc.) are also drafted by the External Reporting Department. Furthermore, generating the reports requested by auditors and inspectors who are auditing the Bank, as well as various other transactions that must be reported to public agencies including branch openings and address changes, transfer processes of participation funds, collaterals and receivables whose statutes of limitations have expired to the Savings Deposit Insurance Fund of Turkey, and the calculation of Deposit Insurance Premium rates are also overseen within the scope of the Department's domestic reporting activities.

### International Reporting

The international reporting activities of the Department consist of drafting the audit reports in accordance with the International Financial Reporting Standards (IFRS) and submitting them for the review of the independent auditors; the reports prepared to meet the consolidation needs of the Bank's main partner Kuwait Finance House; the reports mandated by the Central Bank of Kuwait; and the capital adequacy studies performed within the scope of Basel II efforts.

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# Dynamic audit processes

The Internal Audit Department performed its activities for 2011 in accordance with its work plan's requirements and stakeholder expectations and conducted special examinations and investigations as needed.

## AUDIT AND RISK MANAGEMENT

### Internal Audit Department

The Internal Audit Department was established to create a disciplined and systematic audit structure to assess and improve the effectiveness and efficiency of the Bank's risk management, internal control and corporate governance processes.

The vision of the Department is to execute its activities as an internal audit body that:

- Improves itself constantly with an approach consistent with international standards and best practices,
- Takes a proactive approach in order to eliminate the losses and errors that may hinder the Bank from achieving its goals with a process, business and risk-oriented perspective rather than a person, transaction or error-oriented perspective,
- Creates value for the Bank and assists the Bank in achieving its goals by making preventative and guiding recommendations,
- Is cited as an example within the Bank and in its industry for being competent, objective, meticulous, principled, hardworking and disciplined.

The mission of the Internal Audit Department, which carries out its activities under the supervision of the Audit and Risk Committee (Internal Systems Officer) and provides periodic reports to the Audit Committee and to the Board of Directors through this committee, is to assure the interested stakeholders that the Senior Management has devised an effective and coherent internal control system and this control system functions in accordance with the corporate risk management principles by conducting active audit activities and making risk-oriented assessments and recommendations in order to contribute to:

In line with Kuveyt Türk's 2018 strategy and its expanding branch network, the Internal Control Department organized its activities into three groups: On-Site Control Activities, Central Control and Monitoring Activities, Information Systems Control and Internal Control System Design Activities.

The Internal Control Department coordinated the independent external audit activities, monitored the findings in related audit reports and the actions taken as a result of them, and assisted in the generation of various solutions.

In 2011 the Risk Management Department continued to play an active role in defining, monitoring, measuring, controlling, reporting and managing risks that Kuveyt Türk may encounter and be exposed to.

- The planning and execution of Kuveyt Türk's activities in accordance with the Bank's strategic objectives and policies as well as laws and regulations,
- The development of the activities in line with the Bank's objectives and minimization of losses and errors,
- Adoption of corporate governance best practices to manage the risks inherent in the Bank's activities effectively,
- Economic, effective and efficient use of the Bank's resources.

The Department conducts its activities without any restrictions in accordance with a work plan prepared annually as a result of a risk-oriented audit planning effort that encompasses all business processes, units and subsidiaries as well as information systems of the Bank.

The Internal Audit Department performed its activities for 2011 in accordance with its work plan's requirements and stakeholder expectations and conducted special examinations as well as legal and administrative investigations in certain areas and circumstances as needed. As part of this process, in contrast with the previous years, a comprehensive assessment was performed regarding the effectiveness, adequacy and compliance of the information systems general controls and business process controls of the Bank. These assessments form a sound basis for the Management's Declaration that the Board of Directors is obligated to make for the first time in 2011 and at the end of January 2012 as per the regulations.

Actions arising from the reports are monitored by the Department via follow-up programs and reports were sent to the related authorities when necessary based on the results of these monitoring efforts.

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## REVIEW OF OPERATIONS IN 2011

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Similarly, reports on operational activities are submitted successfully to the Audit and Risk Committee, the Audit Committee and the Board of Directors in least quarterly intervals.

### Internal Control Department

The Internal Control Department was established to design, implement, manage and monitor internal control activities and to report the results to management levels in order to ensure that the Bank conducts its activities in accordance with both external and internal regulations.

In line with Kuveyt Türk's 2018 strategy and its expanding branch network, the Internal Control Department organized its activities into three groups: On-Site Control Activities, Central Control and Monitoring Activities, Information Systems Control and Internal Control System Design Activities. This realignment resulted in significant efficiency and effectiveness increase in the audit process owing to business process specialization and continuous controls.

In conformity with the Bank's organizational structure, the On-site Control activities consist of internal control activities of departments, units, branches and business processes. Efforts within this scope are carried out using the control services formed for the sectors at Region Offices and the Head Office. Performing its tasks with a risk-oriented approach, the Internal Control Department carried out Business Process Restructuring activities at Head Office departments successfully throughout 2011. As part of the Management's Declaration projects, the Department worked on creating the banking processes as well as updating the business processes of these departments and the control points of these processes. In addition, control activities were conducted at the branches in two periods based on the control plan drafted at the beginning of the year; results were reported to the Senior Management.

The Central Control and Monitoring activities were performed under the coordination of the Central Control and Monitoring Service formed within the Department. Using ACL (Audit Command Language) software as well as other computer-assisted audit techniques (CAAT), the Service strived to continuously control Bank-wide transactions. Control and analysis results were monitored using the ACL Exception module that commenced operation in 2011.

Information Systems and Internal Control System Design activities were performed under the coordination of the Information Systems Control and Internal Control System Design Service. In 2011 some activities carried out within the Information Systems Department, various banking processes and recently developed products and services were evaluated from the perspective of the internal control system. By contributing to efforts in this area, the Service aimed to improve the Bank-wide internal control system and facilitate widespread adoption of the control culture.

In addition, the Internal Control Department coordinated the independent external audit activities in 2011, monitored the findings in related audit reports and the actions taken as a result of them, and assisted in the generation of various solutions. The Department presented reports to the Banking Regulation and Supervision Agency of Turkey as well as to the Board of Directors regarding this matter.

The Internal Control Department intends to plan the central and on-site controls of branches, departments and processes for 2012 with a risk-based approach and conduct its activities according to the schedule and timeline it has set.

### Risk Management Department (RMD)

In accordance with its strategic objectives, Kuveyt Türk aims to be one of the leading banks in the industry in the near future. The Risk Management Department conducted successful operations in 2011 within the scope of its goal of managing the risks that Kuveyt Türk's growing business organization is exposed to more effectively. In this regard, the Department undertook efforts to establish and develop risk identification models and early warning models that will provide solid risk management from technical, tactical and strategic perspectives for the matters that will hinder the Bank from accomplishing its goals. These initiatives also paved the way for making projections for the future with a risk-oriented approach.

In 2011 the Risk Management Department continued to play an active role in defining, monitoring, measuring, controlling, reporting and managing risks that Kuveyt Türk may encounter and be exposed to. The analyses that the RMD presented to the Audit and Risk Committee and to the Audit Committee in accordance with Kuveyt Türk's strategies, risk policies and vision include credit risks, market risks, liquidity risks, operational risks and IT risk assessments. Additionally, the RMD performed stress tests and scenario analyses regarding capital adequacy in accordance with market movements and the course of the economy and the Bank's financial growth and assessed the economic developments in the world and in Turkey to be submitted to the Audit and Risk Committee and to the Board of Directors. These analyses made a major contribution to the Bank's Senior Management's decision-making processes regarding risk appetite and awareness for risks, capital adequacy, strategy revisions and future projections.

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The Regulation and Compliance Department is responsible for the effective and proper implementation of regulatory compliance policy, anti-money laundering efforts and the policy of combating the financing of terrorism at Kuveyt Türk and its subsidiaries subject to consolidation.

The Risk Management Department assumed the coordination function to ensure that Kuveyt Türk is prepared regarding business continuity and related matters. Other responsibilities of the RMD include preparing Kuveyt Türk for compliance with Basel II criteria, determining its capital requirements, fulfilling its domestic and international reporting requirements and the analysis of the Bank Capital's risks in accordance with the Basel III framework that is currently being developed.

In 2012 the Risk Management Department is determined to continue its initiatives uninterruptedly to manage the risks that may arise in accordance with Kuveyt Türk's mission, vision and growth strategy. In this context, in addition to efforts regarding credit and market risks, liquidity risk, operational risks and all limits, and IT risks, the Department's work plans will also include internal retail scoring and corporate rating modeling, IT risk assessment, operational loss database, key risk indicators, operational risk insurances, market risk calculations, control of Treasury activities, asset and liability risks and liquidity risks, and transition to Basel II. Additionally, the Department will continue to provide regular and periodic reports to the Audit and Risk Committee that operates under the supervision of the Board of Directors in the coming year. The activities of the credit, market, operational and treasury control units that will support Kuveyt Türk in achieving its objectives in risk management are presented below.

#### **Regulation and Compliance Department**

The Regulation and Compliance Department is responsible for the effective, adequate and appropriate implementation of regulatory-compliance policy, anti-money laundering efforts and the policy of Kuveyt Türk (and its subsidiaries subject to consolidation) combating the financing of terrorism as well as setting and developing standards for this purpose.

The personnel of overseas branches, and of subsidiaries subject to consolidation, who are responsible for monitoring foreign regulations as well as overseeing compliance report periodically to the Regulation and Compliance Department about their activities.

The Regulation and Compliance Department, which operates under the Audit and Risk Committee, has three primary functions: Regulation, Compliance and Financial Crimes Investigation Board Compliance.

#### **Regulation Function**

- Monitoring regulatory developments and making necessary announcements to the Bank,
- Providing advisory service to the branches and departments on legal and regulatory requirements,
- Supporting the relevant departments in preparing internal and external publications,
- Determining measures to prevent the execution of transactions in breach of legal and regulatory requirements and taking the lead in revising the Bank's internal regulations accordingly,
- Overseeing the development of necessary training programs about compliance with legal and regulatory requirements.

#### **Compliance Function**

- Overseeing the compliance of all of the Bank's current and planned operations, new products and transactions development, with legal and regulatory requirements, internal policies and procedures, and banking best practices,
- Reporting to the relevant authorities regarding the Department's regulatory compliance monitoring activities,
- Overseeing the fulfillment of the requirements of the work plans of external audit reports.
- Realizing compliance control activities in the scope of Compliance Control end Annual Compliance Control Plan.

#### **Financial Crimes Investigation Board Compliance Function**

- Ensuring compliance with legislation to prevent money laundering and financing of terrorism,
- Maintaining customer quality through the application of the "Know Your Customer" principles,
- Preventing the Bank from being used for money laundering and financing of terrorism,
- Providing detailed information to the Kuveyt Türk employees on the related legal obligations,
- Evaluating the Bank's clients, transactions and services with a risk-oriented approach and developing the rules and responsibilities to reduce potential risks for the Bank,
- Ensuring the necessary compliance and cooperation in correspondent relations.

The Regulation and Compliance Department carried out its activities in 2011 in line with stakeholder needs and expectations and registered a successful performance in the necessary circumstances and areas. The Department conducted business development efforts regarding the changes made in the banking regulations and undertook initiatives to increase the effectiveness and productivity of the compliance process throughout the year. The results of these efforts were reported to the Senior Management and to the Audit and Risk Committee.



## REVIEW OF OPERATIONS IN 2011

# Improving asset quality

The Legal Affairs and Collection Group, whose primary objective is to achieve a sustainable improvement in asset quality, was influential in reducing the Bank's non-performing loan ratio to 2.26% and increasing its provisioning ratio to 102% in 2011.

### THE LEGAL AFFAIRS AND COLLECTION GROUP

Pursuant to its resolution in 2010, the Board of Directors established a separate group under the name of Legal Affairs and Collection Group and put an Executive Vice President in charge of this Group. This resolution began to bear fruit in 2010 but its real impact was felt in 2011. These impacts are expected to continue at a growing pace in the upcoming period.

Conducting its activities to achieve a sustainable improvement in asset quality, the Legal Affairs and Collection Group was influential in reducing the Bank's non-performing loan ratio to 2% and played a decisive role in giving Kuveyt Türk a competitive edge against its rivals in the banking industry and in the participation banking sector.

In addition, this new unit increased the Bank's provisioning ratio, one of the important indicators of asset quality, to 102% and helped Kuveyt Türk post the best result in its history.

The Legal Affairs and Collection Group is focused on converting fixed assets into current assets (cash) and turning them into resources that will create income for Kuveyt Türk. With this approach, the Group obtained sales revenue of TL 65 million and a profit of TL 16 million in 2011 from the divestiture of current assets held for resale.

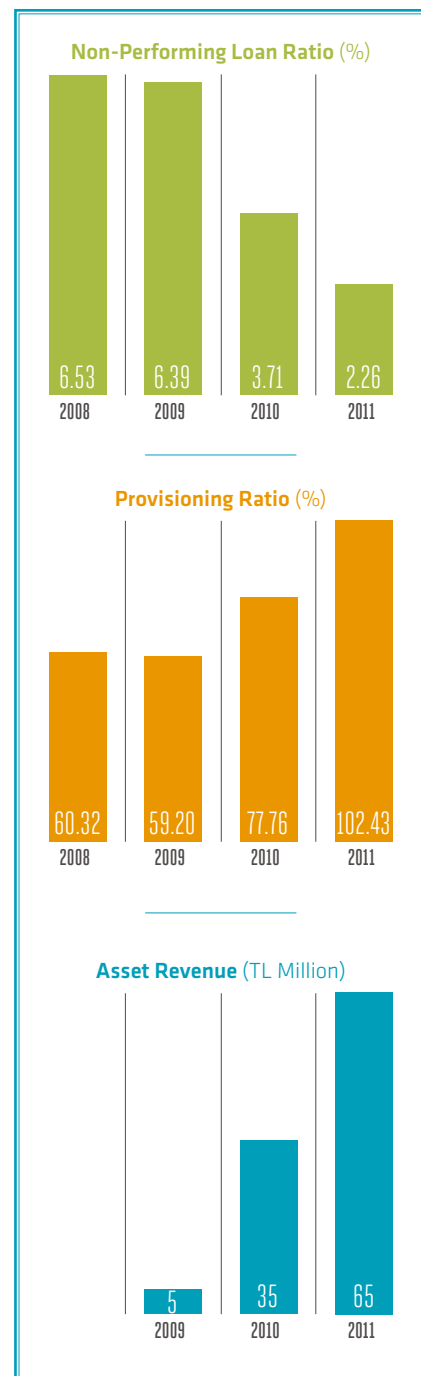
The Legal Affairs and Collection Group undertook major structural changes in 2011.

As part of the structural changes implemented by the Group, the Bank transitioned to the practice of offsetting collections made for receivables for which legal proceedings have been initiated first

and foremost against capital risk. This practice made a major contribution to Kuveyt Türk's ethical banking mission as well as to increasing customer satisfaction.

Within the scope of the loan restructuring process, Kuveyt Türk's principles were completely overhauled in line with industry practices within the framework of the Regulation on the Procedures and Principles for Determination of Qualifications of Loans and other Receivables by Banks and Provisions to Be Set Aside. As part of this initiative, the Bank set the basic evaluation criteria and implemented them as the first order of business. Subsequently, the restructuring decision authority was realigned in a similar fashion to the authorities and limits in the lending process and this arrangement was approved by the Board of Directors. As a result, the Bank was equipped with a structure where loan restructuring requests are evaluated in a more qualified manner and submitted to the committees for final determination on the basis of customer segment and limit.

A new alignment was created with the establishment of the Legal Proceedings Department by bringing together the coordinating attorneys in the Corporate and Commercial Loans Collection Department and the Retail and Small Business Loans Collection Department in order to have a more active involvement with the collection processes of customers against which legal proceedings have been initiated as well as with the affiliated law offices. With the establishment of this new structure, the Bank reviewed the contracts executed with the affiliated law offices as the first order of business and amended these contracts in accordance with Kuveyt Türk's principles, customer satisfaction and industry practices. As part of this process, Kuveyt Türk began



working with regional local law offices that have strong infrastructures and banking references.

The Legal Affairs and Collection Group consists of Corporate and Commercial Loans Collection Department, Retail and Small Business Loans Collection Department, Collateral Monitoring Department, Asset Valuation Unit and Legal Proceedings Department.

#### **Corporate and Commercial Loans Collection Department**

The goal of the Corporate and Commercial Loans Collection Department is to create risk monitoring awareness and perception with the active participation of all branches in a transparent and accountable professional discipline in accordance with Kuveyt Türk's principles, customer satisfaction and industry practices. As part of this effort, the Corporate and Commercial Loans Collection Department's operating principles can be summarized as below.

- Closely monitoring the entire Corporate and Commercial Loans portfolio,
- Trying to collect or pursue the Bank's non-performing receivables and/or receivables that may become non-performing in the future using administrative procedures before legal proceedings are initiated to collect such receivables. Starting legal proceedings promptly when successful resolution is not possible through administrative procedures or in other necessary circumstances,
- Modifying and/or restructuring the debts of corporate and commercial banking clients whose payments have become irregular or delinquent due to a temporary cash crunch but from who, if supported, the Bank can reasonably expect to collect its receivables according to the analyses conducted in accordance with the procedures,
- Collecting the Bank's receivables for which legal proceedings have been initiated through affiliated law offices and working in coordination with the Legal Proceedings Department as part of this effort,

- Closely monitoring the non-performing loan practices in the participation banking sector and in the banking industry regarding delinquent receivables, non-performing loan ratio, provisioning ratio, at risk receivables, restructured loans and written off receivables, devising strategies and policies within this scope by making up-to-date and accurate assessments about the Bank's position and trend using the latest industry data,
- Performing customer segment, commercial sector and loan type analyses on non-performing loans, taking measures that will reduce delinquent receivables, offering employees who can support the credit marketing and lending process to the related departments,
- Calculating the "Performance Based Risk Monitoring Scores" of Branches and Region Offices in accordance with transparent and objective criteria, measuring the performances of Branches and Region Offices on a monthly basis, sharing the results along with the underlying data with the Branches and Region Offices as well as the Marketing Group and the Human Resources Group,
- Identifying the customers to be written off,
- Working in coordination with the Asset Valuation Unit regarding the movable and immovable assets to be disposed of by way of a judicial sale as part of a legal proceeding, determining the bid to be submitted on behalf of the Bank in accordance with the procedures,
- Working in coordination with the Asset Valuation Unit to sell the movable and immovable assets that were foreclosed on by the Bank in accordance with the procedures.

Additionally, a technical team within the Corporate and Commercial Loans Collection Department devises strategies and policies regarding general and special provisions in accordance with the Banking Regulation and Supervision Agency's regulation on the procedures and principles for determination of qualifications of loans and other receivables by banks and provisions to be

set aside on behalf of the Legal Affairs and Collection Group and manages the accounting process of provisions.

#### **Retail and Small Business Loans Collection Department**

The Retail and Small Business Loans Collection Department chose to specialize in order to take effective and quick actions regarding delinquent receivables due to Kuveyt Türk's growing lending volume in line with its rapid growth and the differences between the administrative and legal collection processes and divided into three sub-units.

**Retail Loans Collection Service** is responsible for monitoring and legal proceeding transactions of housing, car, general purpose and other consumer loans as well as personal commercial loans.

**Small Business Loans Collection Service** is responsible for monitoring and legal proceeding transactions of loans extended to small and medium-size enterprises.

**Credit Cards Collection Service** is responsible for monitoring and legal proceeding transactions of credit card customers.

The Retail and Small Business Loans Collection Department's objectives and areas of activity are:

- Closely monitoring the entire Retail and Small Business Loans customer portfolio,
- Trying to collect or pursue the Bank's non-performing receivables and/or receivables that may become non-performing in the future using administrative procedures before legal proceedings are initiated to collect such receivables. Starting legal proceedings promptly when successful resolution is not possible through administrative procedures or in other necessary circumstances,
- Modifying and/or restructuring the debts of corporate and commercial banking clients whose payments have become irregular or delinquent due to a temporary

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## REVIEW OF OPERATIONS IN 2011

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cash crunch but from who, if supported, the Bank can reasonably expect to collect its receivables according to the analyses conducted in accordance with the procedures,

- Collecting the Bank's receivables for which legal proceedings have been initiated through affiliated law offices and working in coordination with the Legal Proceedings Department as part of this effort,
- Closely monitoring the non-performing loan practices in the participation banking sector and in the banking industry regarding delinquent receivables, non-performing loan ratio, provisioning ratio, at risk receivables, restructured loans and written off receivables, devising strategies and policies within this scope by making up-to-date and accurate assessments about the Bank's position and trend using the latest industry data,
- Performing customer segment, commercial sector and loan type analyses on non-performing loans, taking measures that will reduce delinquent receivables, offering employees who can support the credit marketing and lending process to the related departments,
- Calculating the "Performance Based Risk Monitoring Scores" of Branches and Region Offices in accordance with transparent and objective criteria, measuring the performances of Branches and Region Offices on a monthly basis, sharing the results along with the underlying data with the Branches and Region Offices as well as the Marketing Group and the Human Resources Group,
- Identifying the customers to be written off,
- Working in coordination with the Asset Valuation Unit regarding the movable and immovable assets to be disposed of by way of a judicial sale as part of a legal proceeding, determining the bid to be submitted on behalf of the Bank in accordance with the procedures,
- Working in coordination with the Asset Valuation Unit to sell the movable and immovable assets that were foreclosed on by the Bank in accordance with the procedures.

### Collateral Monitoring Department

The Collateral Monitoring Department is responsible for controlling the procurement of appraisal services regarding the movable and immovable assets taken by Kuveyt Türk as collateral or owned by the Bank in accordance with the appraisal standards stipulated by the Capital Markets Board from authorized appraisal firms licensed by the Capital Markets Board as well as the collateral requested by the Bank's authorized credit committees pursuant to the resolutions of the credit committee. The Collateral Monitoring Department also performs the functions of updating collateral records when necessary; carrying out the requisite work to improve the collateral screens into a simpler and more reliable utility capable of serving all kinds of requirements; and finalization of the release processes of Kuveyt Türk's collaterals without any problems.

The Department ordered and controlled 20,057 appraisal reports, examined 68,576 collateral records, and performed nearly 30,000 collateral release and registration correction transactions during the year. Increasing the number of qualified staff because of the critical importance of the collateral monitoring processes, the Department made a giant stride for beating industry standards in terms of service time and quality. As of December 2011, average time of appraisal service stands at two days for residential properties and 2.5 days for all real estate. Considering the importance of service procurement costs, the Department achieved a 7% reduction in average appraisal costs compared to the previous year by entering into agreements with new appraisal firms and revising the terms of contracts with the existing service providers.

The Collateral Monitoring Department's primary objective is to ensure internal and external customer satisfaction by performing the tasks and transactions in its areas of responsibility fast and accurately without sacrificing quality in accordance with the principles of reliability, scientificity, competence, professional rigor and adherence to rules.

### Asset Valuation Service

The duty of the Asset Valuation Service begins with assessing the estimated price of assets to be sold in judicial sales; continues with determining the bids to be submitted into the auctions, monitoring the auction results, recording the assets acquired by Kuveyt Türk on the balance sheet based on the registration certificate after the auction result becomes final, obtaining the necessary documents from the Trade Registry Office for the title deed applications to be submitted to the governor's offices and passing them on to the attorneys, overseeing the eviction processes, sending an appraiser to the evicted people and determining the sales price, and putting together the lists of properties for sale and sending them to the Bank's branches; and ends with evaluating the offers, drafting the deeds of trust and delivering them to the Kuveyt Türk branches for the accepted offers, removing the asset from the balance sheet following the title deed transfer and asking the Accounting Department to create the necessary accounting records.

The Asset Valuation Service's objective is to sell more assets than it acquires in terms of number and amount and to reduce the Bank's inventory compared to the previous year. In accordance with this primary goal, the Service divested 385 properties while acquiring only 328 properties in 2011. As a result, it sold 17% more properties than it purchased.

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Kuveyt Türk has signed agreements with 59 law offices in 38 provinces for the collection of its corporate, retail, working capital and credit card loan receivables for which legal proceedings have been initiated; the Bank actively sends files to 41 of these law offices.

Total value of acquired properties was TL 18 million while the value of divestitures amounted to TL 50 million. In terms of value, the Department sold 177% more than it purchased.

The amount of inventories valued at purchase price declined from TL 70 million at year-end 2010 to TL 52 million as of year-end 2011. Consequently, the Bank worked down its inventories to the tune of 25%.

As the data provided above illustrate, the Asset Valuation Service had successful results in 2011 in active cooperation with the branches in terms of its objectives of selling more assets than it acquires in terms of number and amount and reducing the Bank's inventory compared to the previous year.

Pursuant to the Banking Regulation and Supervision Agency's Communiqué No. 26333 dated November 1, 2006, banks record annual depreciation and amortization expense equal to 2% of the value of the immovable properties they acquired for the first three years while this figure is doubled retrospectively starting from the day of acquisition for properties that are not disposed of within three years. If the immovable property cannot be divested within five years, it is recognized in the shareholders' equity accounting as a deduction from the capital account by an amount equal to the net book value. In other words, the Bank's capital declines by the net book value of the property. Sales of immovable property made by the Department prevented such reductions in the Bank's shareholders' equity.

The profit from the divestiture of immovable properties is not only the difference between the purchase and sales price of these properties as far as the Bank's accounting is concerned; since the depreciation and amortization expenses recorded in previous years are negated, the Bank's profit increases by the amount of negated depreciation and amortization expenses.

Reductions were achieved in the expense items for the properties acquired by the Bank such as association fees and repair and maintenance costs in accordance with the policy of "Cutting Expenses", reducing the expenses of the branches and thus of Kuveyt Türk significantly.

#### **Legal Proceedings Department**

Kuveyt Türk has signed agreements with 59 law offices in 38 provinces for the collection of its corporate, retail, working capital and credit card loan receivables for which legal proceedings have been initiated; the Bank actively sends files to 41 of these law offices. As part of its restructuring efforts in collection and legal proceeding practices in 2011, the Bank decided to transition from a province-based working order to a regional-based arrangement. Within this scope, Kuveyt Türk executed agreements with law offices specialized in the banking industry with a corporate identity and professional organization in four regions. In 2012 the Department aims to finalize these initiatives, put the regional working order in effect in its entirety, and as a result minimize the number of affiliated law offices.

In addition, as part of the restructuring efforts, all of the Bank's collection and legal proceeding practices were reviewed in light of the practices of other leading banks in the industry and working principles, including compensation, were radically overhauled in 2011. As a result, a competitive and auditable structure that encourages law offices to work with a collection-oriented approach and to cooperate more actively and closely was established. The Bank's Attorney Agreement was modified significantly with provisions that will bring this arrangement into force.

As part of the existing law office controls and audits, the Bank receives daily and monthly reports from its affiliated law offices on a regular basis. In addition, the Department conducts visits to the law offices periodically to physically examine the court files at the courthouse and provides feedback on its findings. Furthermore, monthly collection targeting efforts are conducted with the law offices and the target realization rates are shared with them at regular intervals during the month. The Department conducts a detailed study on the overall performance of the law offices twice a year and deliberates the issue of taking the necessary measures regarding underperforming law offices.

## REVIEW OF OPERATIONS IN 2011

# Continuous and high-quality service

Management of business processes to increase Kuveyt Türk's business effectiveness and execution of technology update tasks are among the responsibilities of Kuveyt Türk's Operations Center.

### BANKING SERVICES GROUP

#### Operations Center

Kuveyt Türk's Operations Center was formed to execute the operational transactions of the corporate, retail and international banking groups in a coordinated fashion. Carrying out its activities with the goal of achieving high quality standards and minimizing operational costs, the Operations Center consists of the Credit Operations, Banking Operations, and Foreign Trade and Treasury Operations departments.

Management of business processes to increase Kuveyt Türk's business effectiveness and execution of technology update tasks are among the responsibilities of Kuveyt Türk's Operations Center. As Kuveyt Türk steadily increases its number of branches and transaction volume, the Operations Center invests in enhancing its organizational capacity and human resource competence in order to manage Kuveyt Türk's operational business processes effectively.

#### Credit Operations

The Credit Operations Department carries out Kuveyt Türk's retail and corporate lending projects, leasing transactions, and letter of guarantee and insurance transactions in accordance with the Bank's operating principles and legal and regulatory requirements.

In 2011 the number of credit transactions performed by the Credit Operations Department increased by 31% on the previous year to reach 100,000 while total lending surged by 42%.

Paralleling Kuveyt Türk's Neova Sigorta agency initiative, the Credit Operations Department administered the requisite training for the branch personnel; the number of employees certified by SEGEM (Insurance Training Center) reached 258 Bank-wide.

The number of inbound calls received by the Call Center increased 31% in 2011 on the previous year and reached 2,250,211.

# 31%

#### Transaction Volume Increase in Credit Operations

In 2011 the number of credit transactions performed by the Credit Operations Department increased by **31%** on the previous year to reach 100,000.

The number of insurance transactions rose by 20% to reach 98,753 in 2011, from 82,150 in 2010.

The Credit Operations Department processed 55,834 letters of guarantee approvals in 2011, up 30% from 43,000 in 2010. In addition, 5,119 letter of reference and letter of guarantee confirmations were issued in 2011.

#### Credit Operations Department's Activities in 2011

- As part of the ANKA Project, existing credit, insurance and letter of guarantee processes were reviewed comprehensively. Within this scope, the necessary business analyses were performed and new business processes were devised and made ready for software implementation.
- The Letter of Reference confirmations that were issued by Loan Allocation Departments began to be provided by the Insurance and Letter of Guarantee Unit.
- Paralleling Kuveyt Türk's Neova Sigorta agency initiative, the Credit Operations Department administered the requisite training for the branch personnel; the number of employees certified by SEGEM (Insurance Training Center) reached 258 Bank-wide.
- In accordance with Kuveyt Türk's growing insurance transaction volume, the Department accelerated organizational restructuring efforts to consolidate all insurance transactions within the Bank under one roof.

- Enhancing the credit operations system with the addition of a significant feature during the year, the Department created an infrastructure through which the orders to be given to the seller in accordance with interest-free banking principles can be sent via e-mail, facsimile and mobile phone.
- The notification and tax addition transaction that was performed by the Collection Department and the branches in accordance with the Turkish Civil Code Law No. 888 in previous years was consolidated under a single body and began to be carried out by the Credit Operations Department.
- The Department formed a competent team at Kuveyt Türk's Emergency Center in Ankara, contributing to ensuring operational continuity during crises.

### Banking Operations

Call Center, Cash Management, Branch Coordination, Clearing, Data Entry and Official Correspondence units operate within the Banking Operations Department.

### Call Center

Positioned at Istanbul Operations Center and Ankara Balgat DRC, the Kuveyt Türk Call Center serves its customers on a 24/7 basis. Telephone banking, support services, credit card and insurance sales services and responding to branch calls are among the activities performed by the Call Center.

The number of inbound calls received by the Call Center increased 31% in 2011 on the previous year and reached 2,250,211. In addition to incoming calls, the Call Center also organized various outgoing call campaigns and made 117,543 outbound calls as part of this effort.

The number of calls received from the branches rose to 853,418 in 2011, a 10% increase on 2010. 70% of the calls received by way of the branches were concluded successfully by the Call Center.

79.27% of the inbound calls received by the Call Center were picked up within the first 20 seconds while the average response time for all incoming calls was 18 seconds.

The number of banking transactions conducted through the Call Center reached 53,266 in 2011, a 54% increase on 2010. The total volume of banking transactions grew by 115% on a year-over-year basis to TL 293.35 million.

The Bank took in TL 774,700 of income from Neova Sigorta policy sales that were conducted as part of the Department's sales activities. The number of automatic bill payment orders surged by 105% in 2011 to 30,119.

A secret customer survey was conducted by Telephone Doctor™ in 2011 in order to measure the service provision quality of the Kuveyt Türk Call Center. As a result of the measurements performed on a monthly basis, Kuveyt Türk Call Center's service provision quality was assigned 94 out of 100 points. As part of the same survey, the Call Center was compared with the corresponding units of Turkey's five leading banks and was acknowledged as the best call center in terms of service provision quality.

### Cash Management Unit

The Cash Management Unit is responsible for organizing the cash flow Kuveyt Türk's branches in Istanbul and its surrounding provinces. Beginning to perform its cash transactions over a single system in as of 2011, the Unit provides group service to the 75 Istanbul branches while also monitoring the transactions of the provincial branches.

Working in shifts for the group transactions, the Unit performed 737 gold transactions shifting three tons of gold in 2011. The Unit increased its number of transactions to 37,269 in 2011 from 31,688 a year ago while raising its total transaction volume from US\$ 9.5 billion to US\$ 16.6 billion.

### Clearing Unit

The Clearing Unit clears the checks and promissory notes that are handed to the Bank's branches via the Clearinghouse and correspondent banks and reflects them in customers' accounts. The Unit also prints checkbooks that cleared the Bank's approval mechanisms. 1,171,335 check leaves were printed by Kuveyt Türk in 2011. 419,800 checks with a total value of TL 4.1 billion were cleared through the Clearinghouse. In addition, the Clearing Unit provided authorization for 670,822 checks amounting to TL 8.1 billion. Total number of promissory notes and total transaction volume processed through Akbank, Kuveyt Türk's correspondent bank, reached 23,081 and TL 88.8 million, respectively.

In 2010 Kuveyt Türk joined the foreign exchange check clearing system launched for checks drawn in foreign currencies traded in the interbank market. The Bank reached 18,192 checks in this area, a 26% increase on the previous year, and total transaction volume of US\$ 521 million in 2011.

The number of other banks' checks drawn in foreign currencies submitted for clearing increased by 13.53% on the previous year to 8,548 while the total value of such checks reached US\$ 194.8 million for a growth rate of 41%.

The Clearing Unit completed a major project in 2011 and began reporting bounced checks to the Central Bank of Turkey through OPM rather than the branches.



## REVIEW OF OPERATIONS IN 2011

Portfolio realized in the branches in 2012, the Bank's collection cheques will be transferred in the Bank's clearing system in the clearing center of the Bank by developing a different clearing pool.

### Official Correspondence Unit

The Official Correspondence Unit is responsible for responding to all official correspondence received by the Head Office and the branches and archiving these correspondences electronically. The number of official correspondences responded to by the Unit in 2011 stands at 91,765.

In addition, the Unit completed the process work for the restructuring of the official correspondences system under the BOA and initiated the analysis stage in 2011. The Unit's goal for 2012 is to complete the analysis and software phases of the official correspondences system and responding to correspondences automatically. Furthermore, the Official Correspondence Unit aims to put in process the lien notifications received from the SGK (Social Security Institution of Turkey) in paper environment as electronic lien in 2012.

### Data Entry Unit

The Data Entry Unit controls the collateral, check and promissory note images that are sent electronically by the branches in accordance with formal requirements and enters them into the system.

In 2011 the number of collateral entries grew by 9% to 82,060 while check entries increased by 2% to reach 661,000 and promissory note entries were up by 26% to 120,000.

The Data Entry Unit aims to launch the pilot project for performing EFT, Money Transfer, SGK (Social Security Institution of Turkey) and Tax payment transactions centrally. In addition, the Unit plans to transfer the check, promissory note and collateral transactions to the BOA.

### Lien Unit

The Lien Unit, which was moved from the Collateral Monitoring Department to the Banking Operations Department in 2011, serves Kuveyt Türk branches in Istanbul, Izmir and Ankara regarding drafting official documents and establishing liens.

As of year-end 2011, the Unit has conducted 16,700 transactions.

With the appraisal system that was purchased recently, the Unit aims to draft the documents at the branches and deliver them to the customers simultaneously in 2012.

### Branch Coordination Unit

The Branch Coordination Unit is responsible for performing support functions to enhance operational performance at the branches, measuring the operational performance, determining the size of the branch staff according to the workload, and carrying out the tasks related to the promotion and assignment of the operations personnel.

### Branch Coordination Unit's Activities in 2011

- As a result of the more active utilization of ATMs in accordance with the targets assigned to the branch operations staffs in regard to directing transactions to ATMs, the share of ATM transactions in combined branch and ATM transactions reached 43% in 2011.
- Authorization transactions regarding the Bank's checks and check authorization transactions requested from the tellers were moved to the BOA system in 2011 and the performance evaluations of the branches in this area began to be monitored online.
- The Unit continued to serve the branches in 2011 by assigning its support staff located in Istanbul, Ankara, Bursa and Izmir to the branches in case of personnel shortages at the branches.

- Conducting 223 visits to 153 Kuveyt Türk branches in 2011, the Unit examined the physical condition of the branches, assessed their needs and demands, and communicated the expectations from their operations personnel.
- The operations staff of the branches that were inaugurated in 2011 continued to be determined as 1+1. As of year-end 2011, 27 branches operate in accordance with this policy. This policy serves to prevent cost overruns due to idle capacity at newly opened branches where sufficient transaction volume has not yet been attained.
- The first phase of the system integration of Q-Matic (queuing system) that will facilitate the measurement of individual performance was completed in 2011. The second phase is aimed for completion in 2012 as part of the BOA integration of queuing systems.
- Total number of ADC sales (bill payment order, debit card, rent payment, internet, Sale Plus) made by branch operations in September 2011 increased to 6,293 from 2,353 in the same month of 2010, in compliance with the targets set for branch operation staff.

### Foreign Trade and Treasury Operations

The Foreign Trade and Treasury Operations Department's responsibilities include banking services related to import, export and External Guarantee transactions; the control and oversight of the incoming and outgoing foreign currency transfers of customers as well as the Moneygram, SWIFT and EFT systems; and back office functions related to Treasury transactions.

An R&D Center was formed within the Information Technology Unit to reduce foreign dependency in the sector by converting innovative ideas and solutions into competition-enhancing products, to contribute to the national economy and to undertake projects that will establish the university-industry collaboration.

Business volume of Kuveyt Türk's Foreign Trade business line, which consists of Transfer, Collection and Letter of Credit/ External Guarantee units, increased by 50% in 2011 compared to the previous year. As part of the efforts related to the BOA process, all processes were reviewed and job analyses were completed. As the IT analyses continue, database agreements that are mandatory for maximum automation were executed. The Unit formed a competent team at the Bank's Emergency Center, contributing to ensuring operational continuity during crises.

The Treasury Operations Unit closed 2011 with a 105% increase in business volume compared to the previous year. In this regard, thanks to the controls established and improvements made in the EFT infrastructure, the Unit achieved an automation rate of 90% in reflecting the incoming EFTs in customer accounts. In addition, the EFT banking system was redeveloped and successfully transferred to the BOA system. Also assuming the responsibility of being the EFT center, the Unit initiated the design and planning work for the "Retail Payment System" that will operate in parallel to the EFT-EMKT system that the Central Bank of Turkey intends to establish. The BOA-related efforts of the Treasury process were also actively supported.

Based on the Straight Through Process (STP) standards, the Department operated with an accuracy rate of 99% and higher in domestic and international money transfers made via correspondent banks.

#### Information Technology (IT)

The Vision 2014 Strategic Transformation Program that was launched in 2010 as part of Kuveyt Türk's vision for 2014 to establish a competitive edge in the industry by developing innovative products and services was continued in 2011. The technology infrastructure of this program (BOA) set new world records in the tests conducted at Microsoft's labs in Germany and in the United States and it was published as a case study. As part of the project, a great majority of the teller and account applications that are part of core banking were implemented in 2010. The banking transformation, restructuring of business process, new operations center, external transactions, treasury, MIS, credits, and data mining projects continued in 2011.

A Testing Service was formed within the Information Technology Unit to achieve the objective of implementing and developing the transformation program with the minimum number of errors.

An R&D Center was formed within the Information Technology Unit to reduce foreign dependency in the sector by converting innovative ideas and solutions into competition-enhancing products, to contribute to the national economy and to undertake projects that will establish the university-industry collaboration. Thanks to the Kuveyt Türk R&D Center that holds the distinction of being the first and only bank R&D center registered by the Ministry of Industry of Turkey, the Bank amassed a major competitive edge against its rivals. The Service Desk, which oversees the continuity of the systems, reached first-level support ratio of 85% as well as a customer satisfaction ratio of 80% in terms of call resolution speed.

The Emergency Center, which was established to ensure that the Bank's systems continue to operate from a different location in case of a potential disaster, was relocated to the Ankara Türk Telekom Campus. Two comprehensive Emergency Center drills were successfully completed during the year.

In addition to the Core Banking Transformation program, many other important projects were also implemented:

#### Mannheim – Germany Branch Banking System

After Kuveyt Türk's Bahrain and Dubai branches, with a solution developed based on overseas banking system, were put into service, the Germany Branch began operations in accordance with local regulations and branch-specific business flow processes.

#### Portfolio-based Budget System

The Portfolio-based Budget System has the features of budgeting and monitoring realization data at the marketing portfolio level of the branches and possesses flexible reporting functions that represents a major step forward in the transformation of Kuveyt Türk's financial reporting system. It was completed and placed in service.

#### Portfolio Performance Scorecards System

Using the Portfolio-based Budget System, the Information Technologies Unit developed and went live with a system allowing the performance of retail, small business and corporate marketing portfolios as well as the performance of marketing activities of the branches to be monitored and reported daily. Related performance criteria can be evaluated based on targets and realizations with a flexible scoring and weight management system and performance scores can be calculated.

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## REVIEW OF OPERATIONS IN 2011

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### Corporate Performance Management System – Phase One

Kuveyt Türk developed a flexible and user-friendly reporting and performance measurement model to be used in monitoring compliance with its strategic objectives and the unit-level components of these strategic objectives at every organizational level. These are treated as key performance indicators providing the ability to monitor the goals of units with regard to their responsibilities and functions.

### Business Intelligence

Customer, participation form, credit, foreign trade, Social Security Institute of Turkey, donation, bill, tax, salary payment, internet branch, call center and IVR data are made available to the users. This information can be accessed as listing reports, OLAP analyses, ad hoc reports, dashboards and analytical reports as part of a model in the data warehouse. In 2011, the Unit realized modeling the credit card, ATM and POS applications.

### Mobile Banking

The Unit aims to facilitate the execution of major banking services such as EFT, money transfer and salary payment using 3G cell phones and to enable the generation of OTP (one-time password) by all cell phones instead of physically using OTP devices.

### Internet Branch Modernization

The Unit aims to improve the Bank's internet branch with a user-friendly approach to enhance the ease and speed of access of customers to the banking products and services.

### Bancassurance (Insurance Integration)

This project, which began service in January 2011, was initiated to ensure the accurate recognition and accounting of insurance policies issued at Kuveyt Türk branches and to establish the credit collateral link automatically between Kuveyt Türk and Neova Sigorta.

### CRM

Launched to meet sales force automation and customer satisfaction needs and to ensure the management of marketing activities with the highest level of efficiency, the pilot applications of the project continued in 2011.

### Loan Transformation Allocation

This project facilitates monitoring and managing lending business flow processes within the authorization of the branches, region offices and the head office. In addition, this system also allows the collaterals to be entered separately for each lending decision and assigning an upper limit for these collaterals. Product-based limit allocation and management of collateral transfers were engaged with the implementation of this system.

### Electronic Signature

The Unit went live with the process of signing the documents originally signed with a wet signature using the Central Signature System with an e-signature, which is equivalent to a wet signature pursuant to Law No. 5070.

### Corporate Scoring (Rating and Scoring)

Planned for completion at year-end 2011, the Corporate Rating and Scoring Project is intended to develop the application scorecards of corporate, SME and retail customers. Developing scorecards will facilitate the acceleration of several processes. These include lending decision and credit appraisal process, making lending decisions based on the sector of the applying client, customer-risk based pricing and limit allocation, and creating the technology infrastructure of internal rating and scoring models that will be mandated by the Banking Regulation and Supervision Agency of Turkey in the future as part of Basel II compliance efforts.

### Kuveyt Türk Wireless Access Service Project

Kuveyt Türk offers wireless access at its head office, operations center and Nevtron location. Providing visitors access to wireless network. As a result of development in this area, the Bank can monitor the internet activity of visitors as well pursuant to Law No. 5651.

### E-Collection System

Switching to e-collection in the Tax Collection system and obtaining the necessary certification, the Bank undertook the initiatives mandated by the Revenue Administration and facilitated online payment of many types of taxes within the tax collection system. Consequently, taxpayer payments are instantly credited to their accounts by the Ministry of Finance. In addition, with the launch of online tax reconciliations, the operational workload was reduced.

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Efforts commenced for the construction of the Kuveyt Türk Banking Center and Living Space, which is one of the most important initiatives that will physically shape the Bank's vision for the future.

#### Call Center Emergency Center

A substitute of the call center systems that will operate on an active-passive basis was established at the Emergency Center. In addition, as part of the business continuity project, the Bank enabled an Ankara-based call center team to receive calls from the Istanbul Call Center and operate as a second office.

#### Purchasing-Expense Management-Fixed Assets

The system registration stages of the process initiated by the employees by creating a purchasing request, as supply-payment and requested asset, were converted into an easy-to-follow structure.

#### Administrative Services Group

The Administrative Services group comprises the Purchasing, Administrative Services, Construction and Project Development, and Communication and Security Services desks.

The Administrative Services Group provides all goods and services needed by Kuveyt Türk, all maintenance and repair services, security services, all restorations and refurbishing of branch offices and other bank locations including project drafting, furnishing as well as operation and maintenance processes of all communication lines, as well as cargo, mail, and other consignment services.

Administrative Services Group's Activities in 2011

- As part of the new branch concept that was initiated to modernize the existing branch concept in accordance with the changing and evolving needs and to support Kuveyt Türk's new corporate identity format with a new architectural identity format, 39 new branches were inaugurated in 20 different provinces in 2011: Eyüp, Mahmutbey Yolu, Kızıtaşı, Bulgurlu, Fikirtepe, Büyükçekmece, Florya, Seyitnizam, Tahtakale, Dolayoba, Kavacık and Tavukçuyolu branches in Istanbul; Ümitköy, Çankaya and Başkent Corporate branches in Ankara; Kemalpaşa, Buca and Çamdibi branches in Izmir; Cumhuriyet Caddesi, İnegöl, Fatih Sultan Mehmet Bulvarı and Gemlik branches in Bursa; Edremit branch in Balıkesir; Gölcük and Çayırova branches in Kocaeli; Tatvan branch in Bitlis; Bodrum branch in Muğla; Mezitli branch in Mersin; Yüreğir branch in Adana, BÜSAN branch in Konya; Eskişehir Sanayi branch in Eskişehir; as well as Bartın, Çankırı, Ağrı, Giresun, Kars, Niğde, Osmaniye and Zonguldak branches.
- Kuveyt Türk's Bayrampaşa and Erenköy branches in Istanbul and Osmangazi branch in Bursa were relocated to their new venues in 2011. The Merkez branch in Adana and Beyazıt branch in Istanbul were re-launched with their new looks after being renovated and redecorated.
- In an attempt to support Kuveyt Türk's growing branch network with faster and higher quality services, increase the Bank's service quality and reduce its operating costs, the initiative to centralize such services as technical services, cleaning and catering services, fuel purchases, payments for communication services and dining cards under the Administrative Services Group Purchasing Service was completed successfully in 2011.

- An Architectural Design and Idea Project Competition was organized in 2011 as part of the construction efforts for the Kuveyt Türk Banking Center and Living Space, which is one of the most important initiatives that will physically shape the Bank's vision for the future. As a result of its meticulous examination and evaluation of the projects submitted by architecture firms that entered the competition, the Banking Center Executive Committee chose the suitable architectural project for the Kuveyt Türk Banking Center and Living Space Building in light of the functionality, vision, environment-friendly design and cost criteria. The selected design project has progressed to the stage of drafting the architectural and electro mechanic projects. Demands and needs conveyed at the detailed meetings and interviews held with all departments were used as the basis for drafting the project. After the completion of architectural projects and determination of the specifications, the Kuveyt Türk Banking Center and Living Space Construction Tender process was initiated.

## BOARD OF DIRECTORS



**MOHAMMAD S.A.I. AL OMAR**  
CHAIRMAN OF THE  
BOARD OF DIRECTORS

Born in Kuwait in 1959, Mohammad Al Omar graduated from the Chapman University, Department of Economics in California in 1986. After working as a Financial Analyst and Manager of Construction and Real Estate, Investments, and Procurement at Pearl Investment Company from 1987 to 1992, Al Omar joined Kuwait Finance House in 1992. Appointed as Executive Vice President for the Investment Sector at the Kuwait Finance House in 1999, Mr. Al Omar has served as CEO of Kuwait Finance House since 2007. Serving as the Chairman of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. since 2000, Mohammad Al Omar is also a member of the Bank's Credit Committee. He resigned from his positions as the member of the Audit Committee and the Audit and Risk Committee as of October 19, 2010.



**ABDULLAH TİVNIKLİ**  
VICE CHAIRMAN OF THE  
BOARD OF DIRECTORS

Born in Erzurum in 1959, Abdullah Tivnikli graduated from Istanbul Technical University, Department of Mechanical Engineering in 1981 and received a Master's degree from the School of Business Administration of the same university. Mr. Tivnikli has been a member of the Board of Directors of Kuveyt Türk Katılım Bankası since 1988 and was appointed as Vice Chairman of the Board of Directors in 2001. In addition to his responsibilities in the participation banking sector, Abdullah Tivnikli is a Member of the Board of Directors at Türk Telekom and serves in the management of Eksim Group, Tivnikli's family business. Eksim Group is active in the grain products trading, energy, food and mining industries.



**DR. ADNAN ERTEM**  
MEMBER OF THE  
BOARD OF DIRECTORS

Born in Erzincan in 1965, Dr. Adnan Ertem graduated from Istanbul University, Faculty of Political Sciences in 1987. He received a Master's degree in Political Science from the Institute of Social Sciences of the same university in 1990 and was awarded a doctorate degree in 1998 for his thesis on Social Structure and Social Change. Dr. Ertem started his professional career in 1988 as Assistant Auditor in the Internal Audit Department of the General Directorate of Foundations. After serving in various positions in the same institution, Adnan Ertem was appointed as the Istanbul Regional Director of Foundations in 2002. Appointed as a Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. the same year, Dr. Ertem is also a member of the Bank's Corporate Governance Committee and Audit and Risk Committee. After serving as a Deputy Undersecretary to the Prime Minister of Turkey between 2007 and 2010, Dr. Adnan Ertem was appointed as General Director of General Directorate of Foundations in 2010. Dr. Ertem is fluent in English and married with two children.



**NADİR ALPASLAN**  
MEMBER OF THE  
BOARD OF DIRECTORS

Born in Kırşehir in 1966, Nadir Alpaslan graduated from Istanbul University, Faculty of Political Sciences, Department of Public Administration in 1987. Beginning his professional career at the Prime Ministry, Family Research Institute of Turkey in 1999, Mr. Alpaslan served as Advisor to the Minister and Head of Administrative and Financial Affairs at the Ministry of Tourism for four years. Continuing his career as Deputy Undersecretary and Advisor to the Minister at the Ministry of Culture and Tourism from 2003 until 2007, Nadir Alpaslan was appointed as Deputy Secretary General of the President's Office in 2007. He has been serving as a Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. since April 15, 2011.



**AZFAR HUSSAIN QARNI**  
MEMBER OF THE  
BOARD OF DIRECTORS

Born in Karachi, Pakistan in 1956, Azfar Hussain Qarni graduated from Ned University, Department of Chemical Engineering in 1980 and received his Master's degree from Karachi University, School of Business Administration and Economics, Department of Business Administration in 1987. Starting his professional career as an Assistant Specialist at Imperial Chemical Industries in Pakistan, he served at various posts at the Pakistan-based National Development Finance Corporation and was eventually promoted to the Vice Presidency. Appointed as Project Capital Officer at the Islamic Development Bank in 1996, Mr. Qarni has been serving as a member of the Board of Directors and the Audit and Risk Committee of Kuveyt Türk Katılım Bankası A.Ş. since 2003.



**KHALED N. AL FOUZAN**  
MEMBER OF THE  
BOARD OF DIRECTORS

Born in Kuwait in 1954, Khaled N. Al Fouzan graduated from Kuwait University, Department of Business Administration in 1978. Mr. Al Fouzan began his professional career at Kuwait Commercial Bank, later working as Director of Participations at the Kuwait Social Security Institution for six years. Appointed as Manager of the Banking Department in 1984, he continued his career at the Social Security Institution after 2004 as the Executive Vice President of Finance & Management. Al Fouzan served as a member of the Board of Directors at Körfez Gümrük A.Ş., Kuwait Industry Bank and Al Manar Leasing. Mr. Al Fouzan has been serving as a member of the Board of Directors at Kuveyt Türk Katılım Bankası A.Ş. since August 2006 and a member of the Audit and Risk Committee since 2007.

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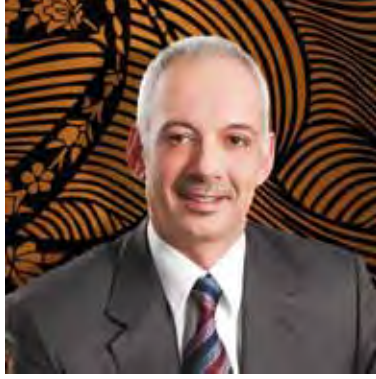
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## BOARD OF DIRECTORS



**SHAHEEN HAMAD  
ABDULWAHAB AL GHANEM**  
MEMBER OF THE  
BOARD OF DIRECTORS

Born in Kuwait in 1968, Shaheen Hamad Abdulwahab Al Ghanem graduated with a commercial license degree in Accounting from Kuwait University School of Commerce, Department of Economics and Political Science in 1994. Having completed Harvard University's General Management Program, Mr. Al Ghanem began his professional career as Chief Accountant of the Consolidation Systems and Procedures Department at Kuwait National Petroleum Company in 1989. After working as the Assistant to the Head Accountant at International Investors Co., a leading investment firm in the Gulf Region, he was appointed Manager of the Financial Control Department at Kuwait Finance House in 2001, a position which he still holds. Al Ghanem has been serving as a member of the Board of Directors and the Corporate Governance Committee of Kuveyt Türk Katılım Bankası A.Ş. since 2006 as well as a member of the Audit and Risk Committee since 2007.



**FAWAZ AL SALEH**  
MEMBER OF THE  
BOARD OF DIRECTORS

Born in Kuwait in 1963, Fawaz Al Saleh is a graduate of Macalester College, Department of Business Administration-Economics in the United States. He joined Kuveyt Türk Katılım Bankası A.Ş. as a member of the Fund Management Department in 1996. Mr. Al Saleh was appointed as Executive Vice President in 1999 and later as Executive Assistant to the CEO, serving in this position until 2006. Serving as a member of the Bank's Board of Directors since 2006, Fawaz Al Saleh also serves as the Vice Chairman of the Board of Directors and the CEO of Turkapital Holding B.S.C.C.



**UFUK UYAN**  
CEO

Born in Eskişehir in 1958, Ufuk Uyan graduated from Boğaziçi University, Department of Economics in 1981 and received a Master's degree from the Department of Business Administration at the same university in 1983. After beginning his professional career as a Research Assistant at the Boğaziçi University, Department of Economics in 1979, he served as a Research Economist at the Turkish Industrial Development Bank's Directorate of Special Research in 1982. Mr. Uyan became a Deputy Project Manager at Albaraka Türk in 1985 and joined Kuveyt Türk as the Director of Projects and Investments in 1989. He was appointed as Executive Vice President in 1993 and later Executive Assistant to the CEO. Ufuk Uyan has been the Bank's CEO since 1999 and also serves as member of the Board of Directors and the Credit Committee.

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## SENIOR MANAGEMENT AND STATUTORY AUDITORS



**HÜSEYİN CEVDET YILMAZ** (1)  
HEAD OF THE AUDIT AND RISK GROUP

**İRFAN YILMAZ** (2)  
EXECUTIVE VICE PRESIDENT, RETAIL  
BANKING AND SMALL BUSINESS BANKING

**BİLAL SAYIN** (3)  
EXECUTIVE VICE PRESIDENT, CREDITS  
(CHIEF CREDIT OFFICER)

**AHMET KARACA** (4)  
EXECUTIVE VICE PRESIDENT, FINANCIAL  
CONTROL (CHIEF FINANCIAL OFFICER)

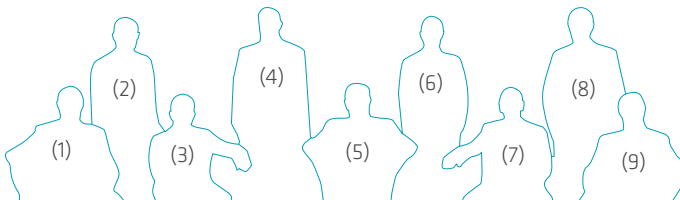
**UFUK UYAN** (5)  
CEO

**MURAT ÇETİNKAYA** (6)  
EXECUTIVE VICE PRESIDENT, TREASURY,  
INTERNATIONAL BANKING AND  
INVESTMENT BANKING

**NURETTİN KOLAÇ** (7)  
EXECUTIVE VICE PRESIDENT, LEGAL  
AFFAIRS AND ADMINISTRATIVE  
COLLECTION

**DR. R. AHMET ALBAYRAK** (8)  
EXECUTIVE VICE PRESIDENT, BANKING  
SERVICES GROUP

**A. SÜLEYMAN KARAKAYA** (9)  
EXECUTIVE VICE PRESIDENT, CORPORATE  
AND COMMERCIAL BANKING



**MURAT ÇETİNKAYA**

EXECUTIVE VICE PRESIDENT,  
TREASURY, INVESTMENT BANKING AND  
INTERNATIONAL BANKING

Born in Çorlu in 1976, Murat Çetinkaya is a graduate of the Boğaziçi University with a double major in the Faculty of Economic and Administrative Sciences, Department of International Relations and in the Faculty of Arts and Sciences, Department of Sociology. Mr. Çetinkaya received his Master's degree from Boğaziçi University, Institute of Social Sciences and is pursuing his PhD studies on international finance/economics-politics at the same university. Beginning his professional career at Albaraka Türk Katılım Bankası, Mr. Çetinkaya worked at various positions in the areas of overseas transactions, treasury and correspondent relations. Joining Türkiye Halk Bankası in 2003, Murat Çetinkaya served as the Head of International Banking and Structured Finance and then as Executive Vice President of International Banking and Investor Relations. During this period, he also served on the Boards of Directors of various Halk Bankası subsidiaries, and at Halk Yatırım Menkul Değerler A.Ş. in his last two years at this company. Joining the Kuveyt Türk family as of January 2008, Murat Çetinkaya currently serves as Executive Vice President of Treasury, International Banking and Investment Banking.

**NURETTİN KOLAÇ**

EXECUTIVE VICE PRESIDENT, LEGAL  
AFFAIRS AND COLLECTION

Born in Elazığ in 1966, Nurettin Kolaç is a graduate of Marmara University, Faculty of Law. He worked as freelance attorney and legal advisor in the banking, leasing and insurance industries. Mr. Kolaç served as Assistant Head of Department and Department Head (Legal) at the Banking Regulation and Supervision Agency of Turkey from 2004 until April 2010. Boasting 21 years of experience in law and banking, Nurettin Kolaç joined the Kuveyt Türk family as Executive Vice President of Legal Affairs and Collection in April 2010.

**BOARD OF STATUTORY AUDITORS****MİKDAT YETİM**

MEMBER

Born in İspir in 1953, Mikdat Yetim graduated from Istanbul Atatürk Institute of Education, Department of Mathematics in 1980. Married and the father of three, Mr. Yetim began his career at Istanbul Regional Directorate of Foundations in 1977. He was subsequently employed as a Supervisor at the Department of Real Estate and then as the Assistant Head of Real Estate at Istanbul Metropolitan Municipality in 1994. Mikdat Yetim has been the Istanbul Regional Deputy Director of the General Directorate of Foundations since 2003. He was appointed as a Member of the Board of Statutory Auditors of Kuveyt Türk, filling the seat vacated by Ayhan Bayram.

**GÜVEN OBALI**

MEMBER

Born in Konya in 1943, Güven Obalı graduated from Ankara University, Faculty of Political Sciences in 1964. In the same year, he passed the Assistant Auditor Exam of the Ministry of Finance. In 1967, he passed the Auditor Exam and earned the title of Auditor. From 1971 to 1972, Mr. Obalı pursued studies in Germany on the adaptation of the Value Added Law to Turkey. Resigning from his position at the Ministry of Finance in 1975, Güven Obalı joined the Turkish Industrial Development Bank. After serving in executive capacities at various levels at the Turkish Industrial Development Bank, he retired in 1994. In 2008, Mr. Obalı became a member of the Board of Statutory Auditors at Kuveyt Türk, filling the seat vacated by Professor Sabahattin Zaim.

**ÖMER ASIM ÖZGÖZÜKARA**

MEMBER

Born in Gaziantep in 1942, Ömer Asım Özgözükara graduated from Ankara University, Faculty of Political Sciences, Department of Economics and Finance in 1964 and joined the Ministry of Finance as an Assistant Auditor immediately after his graduation. He passed the Auditor Exam and began working at the same organization as an Auditor in 1967. In subsequent years, Özgözükara served as Vice president of Istanbul Group Auditors and Vice President of the Board of Auditors. He resigned from his post as Auditor at the Ministry of Finance and joined the private sector in 1975. He was employed as Financial Affairs Manager at Altinyıldız Group of Companies, Faculty Member at Boğaziçi University, and Vice Chairman of the Board of Directors and Executive at Kığılı Group of Companies, respectively. After Law No. 3568 governing the Financial Advisor profession took effect in 1999, Ömer Asım Özgözükara began working as a Certified Financial Advisor. He continues to serve in that capacity at a financial advisory company which he helped to found.

## SENIOR MANAGEMENT AND STATUTORY AUDITORS

### UFUK UYAN

CEO

Please refer to the Board of Directors section for Mr. Uyan's background information.

### AHMET KARACA

EXECUTIVE VICE PRESIDENT,  
FINANCIAL CONTROL

Born in Konya in 1970, Ahmet Karaca graduated from Ankara University, Faculty of Political Sciences, Department of Public Administration in 1990. Starting his career as Assistant Sworn Bank Auditor at the Undersecretariat of the Treasury in 1992, Mr. Karaca was promoted to Sworn Bank Auditor in 1995. Joining the Banking Regulation and Supervision Agency of Turkey with the same title and function in 2000, he became the Deputy Chief Sworn Bank Auditor at the Banking Regulation and Supervision Agency of Turkey between 2002 and 2003, and was appointed Chief Sworn Bank Auditor in 2004. Between 2004 and 2006, Ahmet Karaca attended the State University of New York at Albany for a Master's degree in Economics and with the subject of his Master's thesis on International Banking and Capital Markets. Mr. Karaca joined Kuveyt Türk Katılım Bankası A.Ş. in July 2006 as Executive Vice President of Financial Control (Chief Financial Officer), a position he continues to hold.

### A. SÜLEYMAN KARAKAYA

EXECUTIVE VICE PRESIDENT, CORPORATE  
AND COMMERCIAL BANKING

Born in Istanbul in 1953, A. Süleyman Karakaya graduated from Istanbul University, Faculty of Economics, Department of Business Administration and Finance in 1979. Mr. Karakaya started his banking career as an Auditor at Garanti Bank and later worked in the Internal Audit Board, Risk Management Department and Credits Department of the same bank between 1981 and 2003. He was appointed as Executive Vice President of Corporate and Commercial Banking of Kuveyt Türk in 2003, a position he continues to hold.

### BİLAL SAYIN

EXECUTIVE VICE PRESIDENT, CREDITS  
(CHIEF CREDIT OFFICER)

Born in Sakarya in 1966, Bilal Sayın graduated from the Middle East Technical University, Department of Public Administration in 1990. Beginning his banking career at Albaraka Türk in 1990, Mr. Sayın joined Kuveyt Türk's Projects and Investments Department in 1995. Appointed as Manager of the Corporate and Commercial Credits Department in 1999, Bilal Sayın has been serving as the Executive Vice President of Credits (Chief Credit Officer) since 2003.

### HÜSEYİN CEVDET YILMAZ

HEAD OF THE AUDIT AND RISK GROUP

Born in Istanbul in 1966, Hüseyin Cevdet Yılmaz graduated from Boğaziçi University, Department of Business Administration in 1989. Mr. Yılmaz began his banking career as an Assistant Auditor at Esbank's Internal Audit Board. After serving in various positions within this organization, he joined Kuveyt Türk in September 2000 as the Head of the Internal Audit Department. Hüseyin Cevdet Yılmaz was appointed as Head of the Audit and Risk Group in 2003, a position he continues to hold.

### İRFAN YILMAZ

EXECUTIVE VICE PRESIDENT, RETAIL  
BANKING AND SMALL BUSINESS BANKING

Born in Hakkari in 1970, İrfan Yılmaz graduated from Istanbul Technical University, Department of Management Engineering in 1989. Beginning his banking career at the Financial Affairs Department of Kuveyt Türk in 1990, Mr. Yılmaz was assigned to the Internal Audit Department in 1996 and later served as the Head of the Internal Audit Department between 1998 and 2000. Appointed as Manager of Retail Banking in 2000, İrfan Yılmaz was promoted to Executive Vice President of Retail Banking and Small Business Banking in 2005 after serving in the Retail Banking Department for five years.

### DR. R. AHMET ALBAYRAK

EXECUTIVE VICE PRESIDENT,  
BANKING SERVICES GROUP

Born in Istanbul in 1966, Dr. R. Ahmet Albayrak graduated from Istanbul Technical University, Department of Industrial Engineering in 1988 and received his Master's degree in Organizational Leadership and Business from North Carolina State University in the United States in 1993. Mr. Albayrak earned his PhD from Istanbul Technical University in 2007 for his research on Technology Management. Beginning his banking career as a Specialist at Albaraka Türk Katılım Bankası A.Ş. in 1988, Dr. Albayrak joined Kuveyt Türk in 1994 and served in the Financial Analysis and Marketing departments until 1996. Serving in senior management posts in the private sector between 1996 and 2001, he rejoined Kuveyt Türk as acting Executive Vice President of Branch Operations in 2002. Dr. Albayrak was appointed as Executive Vice President of Operations, Technology, and Administrative Services in 2005. Since the reorganization undertaken in 2008, the Human Resources, Training and Development, Quality, and Strategy Monitoring Departments also report to Dr. Ahmet Albayrak, who currently serves as Executive Vice President of the Banking Services Group.

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## SUMMARY REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL ASSEMBLY

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Esteemed Shareholders,

Kuveyt Türk Katılım Bankası has successfully completed a year in which the global financial crisis began to recede but the global recovery gave way to uncertainty due to the concerns about the sustainability of the public debts of the Euro Zone countries that have been spreading in a domino effect. In the 22nd anniversary of the establishment of the Bank, we are proud to share this success with you, our distinguished shareholders.

Aiming to expand its branch network as part of its growth strategy, the Bank reached 180 total branches in Turkey and abroad as of year-end 2011. Keen on expanding its overseas as well as its domestic branch network, Kuveyt Türk plans to add two new branches, in Erbil and in Qatar, in 2012 to its international presence consisting of the Bahrain Branch, Kuwait Turkish Participation Bank Dubai Ltd that it has established in Dubai, and the Financial Services Branch in Germany. Concurrent with the growing number of branches and expanding organizational structure of the Head Office, the number of employees reached 3,326 as of year-end.

The Bank increased its paid-in capital to TL 950 million by adding TL 100 million from its profit in 2010 to the capital. After issuing a three-year, US\$ 100 million SUKUK in 2010 as the first SUKUK issuance in Turkey, the Bank broke another new ground in Turkey in 2011 by issuing a SUKUK security backed by Lease Certificates and secured a US\$ 350 million facility from the world's leading financial institutions. In addition, we have secured a 10-year, US\$ 200 million subordinated debt from our main partner Kuwait Finance House in 2011, which made a major contribution to our capital adequacy ratio.

With a large number of gold products offered to its customers, the Bank is leading the way in making gold banking a mainstream business line in Turkey. Making effective use of alternative distribution channels such as ATM and Gold Kiosk, the Bank added 60 thousand new clients to its customer segment in this segment in 2011.

In 2011 Kuveyt Türk made very significant achievements in terms of financial indicators and operational results. During this period, the size of the Bank's unconsolidated balance sheet grew by 51.5% compared to the previous year to TL 14.5 billion while total funds acquired increased by 34.1% to TL 10.03 billion. The Bank's lending volume was up by 47% to TL 10.25 billion.

Kuveyt Türk ended 2011 with unconsolidated net profit of TL 232.3 million, an increase of 38% over the previous year, while the Bank's shareholders' equity was up by 15.36% over 2010 and reached TL 1.47 billion.

As the Board of Directors, we would like to express our deepest gratitude and best wishes for success to all of our shareholders, management team and employees, who have made major contributions to Kuveyt Türk's success in 2011.

Respectfully yours,  
**BOARD OF DIRECTORS**

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## INTERNAL SYSTEMS EXECUTIVES

### COMMITTEES

#### Supporting Committees Reporting to the Board of Directors

##### Internal Systems Executives

Name/Surname	Position	Education Level
H. Cevdet YILMAZ	Head of Audit and Risk Group	Bachelor's Degree
Bahattin AKÇA	Head of Internal Audit Department	Bachelor's Degree
Tamer Selçuk DURMAN	Head of Risk Management and Treasury Control	Bachelor's Degree
Fadil ULUIŞIK	Head of Internal Control Department	Master's Degree
Vefa Okan ARIK	Head of Regulation and Compliance Department	Bachelor's Degree

##### Audit Committee

Name/Surname	Position	Date of Appointment	Education Level
Adnan ERTEM	Chairman, Member of the Board of Directors	October 19, 2010	PhD
Azfar Hussain QARNI	Member, Member of the Board of Directors	October 26, 2006	Master's Degree

##### Duties and Responsibilities

- Receives regular reports from the units established under the internal control, internal audit and risk management systems and from independent auditors about the discharge of their functions,
- Notifies the Board of Directors of any issues that might negatively impact the continuity and secure conduct of the Bank's operations or any breach of legal and regulatory requirements or internal regulations,
- Presents to the Board of Directors, at least semi-annually, the results of its activities and its opinions on corrective actions that must be taken, required practices, and on other matters deemed important for the continuity and secure conduct of the Bank's operations.

##### Audit and Risk Committee

Name/Surname	Position	Date of Appointment	Education Level
Adnan ERTEM	Chairman, Member of the Board of Directors	March 29, 2007	PhD
Shaheen Hamad Abdulwahab AL GHANEM	Member, Member of the Board of Directors	March 29, 2007	Bachelor's Degree
Azfar Hussain QARNI	Member, Member of the Board of Directors	March 29, 2007	Master's Degree
Khaled Nasser Abdulaziz AL FOUZAN	Member, Member of the Board of Directors	March 29, 2007	Bachelor's Degree

## INTERNAL SYSTEMS EXECUTIVES

### Duties and Responsibilities

- Determines and documents in writing the strategies, policies and implementation procedures for the activities of units constituting the internal systems; overseeing effective application and execution of these,
- Ensures the coordination between units constituting the internal systems,
- Notifies the Board of Directors of errors or deficiencies detected by the Banking Regulation and Supervision Agency of Turkey or by the independent auditors related to internal systems practices in order to take corrective actions,
- Evaluates the identified errors or deficiencies and directs the control and internal audit activities toward those areas where the same or similar deficiencies or errors might occur.

### Corporate Governance Committee

Name/Surname	Position	Education Level
Adnan ERTEM	Chairman, Member of the Board of Directors	PhD
Shaheen Hamad Abdulwahab AL GHANEM	Member, Member of the Board of Directors	Bachelor's Degree

### Duties and Responsibilities

Ensures compliance with corporate governance principles, monitors the actions taken, undertakes improvement efforts and makes recommendations to the Board of Directors in this regard.

## OTHER SUPPORTING COMMITTEES

### Executive Committee

Name/Surname	Position
Mohammad S.A.I. AL OMAR	Chairman of the Board of Directors
Abdullah TİVNİKLİ	Member, Vice Chairman of the Board of Directors
Ufuk UYAN	Member, Member of the Board of Directors, CEO

### Duties and Responsibilities

- Performs many types of tasks assigned by the Board of Directors,
- Discharges the requirements of its authority on purchasing immovable properties, affiliates and inventories up to 10% of the Bank's shareholders' equity and makes decisions on participation in projects, partnerships and investments.

### Credit Committee

Name/Surname	Position
Mohammad S.A.I. AL OMAR	Chairman, Chairman of the Board of Directors
Abdullah TİVNİKLİ	Vice Chairman of the Board of Directors
Ufuk UYAN	Member, Member of the Board of Directors, CEO

### Duties and Responsibilities

Makes the lending decisions for loans amounting to between 1% and 10% of the Bank's shareholders' equity.

### Assets Liabilities Committee

Name/Surname	Position
Ufuk UYAN	Chairman, Member of the Board of Directors, CEO
H. Cevdet YILMAZ	Member, Head of Audit and Risk Group
A. Süleyman KARAKAYA	Member, Executive Vice President, Corporate and Commercial Banking
Ahmet KARACA	Member, Executive Vice President, Financial Control
Bilal SAYIN	Member, Executive Vice President, Credits
İrfan YILMAZ	Member, Executive Vice President, Retail Banking and Small Business Banking
R. Ahmet ALBAYRAK	Member, Executive Vice President, Banking Services Group
Murat ÇETİNKAYA	Member, Executive Vice President, Treasury, Investment Banking and International Banking
Nurettin KOLAÇ	Member, Executive Vice President, Legal Affairs and Monitoring

### Duties and Responsibilities

Is the senior management committee responsible for the bank's assets and liabilities as well as its financial management. It meets regularly on a weekly basis.

### Attendance in Committee Meetings

In accordance with the Articles of Association, the Bank's Board of Directors convenes whenever necessary and makes decisions as needed. The Board of Directors convened six times in 2011, and all members were present at all meetings unless they reported valid excuses.

The Audit Committee monitors the audit and risk management activities of the Bank in accordance with laws and regulations, particularly the Banking Law, and takes necessary actions. The Audit Committee convened seven times during 2011. In addition, seven Audit and Risk Committee meetings were held in 2011 with the participation of managers of the units constituting the internal systems in order to ensure more effective risk management.

The Executive Committee, which performs the tasks assigned by the Board of Directors, assembled six times in 2011.

The Credit Committee, authorized to assess and approve loans up to 10% of the Bank's shareholders' equity, assembled 12 times in 2011 to perform this task.

The Assets-Liabilities Committee, responsible for the Bank's financial management and for overseeing the asset-liability balance, assembled 50 times during 2011.

### Remuneration Committee

Name/Surname	Position
Mohammad S.A.I. AL OMAR	Chairman
Abdullah TİVNIKLI	Member, Vice Chairman
Ufuk UYAN	Member, Member of the Board of Directors, CEO

### Duties and Responsibilities

The Remuneration Committee to report to the Board of Directors has been established as per the "Regulations on the Corporate Governing Principles for Banks", and carries out the monitoring and inspection tasks of the pricing practices of the Bank on behalf of the Board of Directors.

## HUMAN RESOURCES POLICIES

# Competent and experienced human resources

As of year-end 2011, 84% of Kuveyt Türk's employees hold at least a Bachelor's degree while the average age of the Bank's personnel is 31.

Seeing its human resources, which consist of competent and experienced staff, as its most valuable asset, Kuveyt Türk continued to invest in the HR field uninterrupted in 2011.

Implementing world-class HR systems for a long time, Kuveyt Türk undertook major initiatives in the Human Resources field in 2011 to further increase employee satisfaction and HR service quality.

In terms of core qualities, Kuveyt Türk employees care about internal and external customer satisfaction, are successful in teamwork, have strong communication and persuasion skills, are result-oriented and specialized in participation banking.

As of year-end 2011, 84% of Kuveyt Türk's employees hold at least a Bachelor's degree while the average age of the Bank's personnel is 31. Along with its turbo-charged branch network expansion efforts in 2011, Kuveyt Türk also accelerated its training and development investments in its employees. As part of this effort, the Bank undertook initiatives to reinforce the recruitment, career/skill development and backup processes.

Striving to recruit talented young people to Kuveyt Türk, the Human Resources Department participated in various career fairs, organizations and conferences in 2011 in order to reach out to these young people, to accurately portray and promote the Bank and to increase its brand recognition.

As part of the "Campus at the Bank" program, a social responsibility project launched in 2009, Kuveyt Türk provided 160 university students with the opportunity to attend on-the-job training in various locations and positions of the Bank.

This initiative targets third and fourth-year university students who are preparing for professional life and contemplating a career in the banking industry. Students admitted to the program, after attending training sessions in banking and personal development, do internships at the branches and departments where they get the opportunity to become familiar with the banking sector, demonstrate their performance in accordance with their assigned objectives, decide on their career steps, and accelerate their personal development. Students who successfully complete the on-the-job training and internships receive priority consideration in recruitment after their graduation. In 2011 nearly 60% of the fourth-year students successfully completed the recruitment process and joined the Kuveyt Türk family. In addition, approximately 50% of the new staff hired as MT (Management Trainee) was picked from among students who completed the Campus at the Bank program.

Rapidly expanding its areas of business and branch network in accordance with its growth strategy, Kuveyt Türk continued to successfully administer the Management Trainee Program in 2011 in order to develop its future management team. Candidates chosen from among young professionals who have graduated with honors from Turkey's top universities are subjected to a stringent Assessment Center process and put through a long training and rotation process. Supported by competitive salaries and benefit packages, management trainees also have the opportunity to attend MBA programs to spur the development of their managerial capabilities as well as programs designed exclusively for Kuveyt Türk staff in accordance with their personal development plans. Recruitment processes for the Assistant Controller and Assistant Internal

Auditor positions are also supported with similar substantial applications.

The clubs (Theatre Group, Literature, Music, Travel, Photography, Innovation and Technology, Cinema and Professional Development clubs, as well as the Women Entrepreneurs Platform) that were formed in order to achieve work-life balance within Kuveyt Türk continued their activities in 2011 under the leadership of the employees.

### Recruitment Process

Kuveyt Türk's recruitment team that stands out with its experience and competence employs the most reliable HR techniques and manages the recruiting processes effectively. Kuveyt Türk's number of employees increased from 2,837 at year-end 2010 to 3,326 as of year-end 2011.

The recruitment processes were enhanced with competence-based interviews, general aptitude tests, group interviews, case studies, simulations, role-playing and personality inventories. Information from various applications implemented for the candidates is assessed in detail at the meetings of the Recruitment Committee that consists of the Human Resources recruitment staff to make the hiring decisions about the candidates.

### Compensation System

Kuveyt Türk's compensation management system is designed to motivate employees to perform beyond their assigned objectives, to identify employees performing at different levels, and to remunerate employees based on performance. As part of this effort, Kuveyt Türk's compensation structure is based on the concept of "Total Compensation Package" consisting of salary, performance bonus, foreign language allowance, transportation assistance, and



other supplementary payments. In an effort to remain competitive in the market for talent, Kuveyt Türk also offers various side benefits to its employees including private health insurance that also covers the employee's spouse and children, a private pension system with company contribution, and clothing assistance.

### **Performance System and Career Development**

Kuveyt Türk supports its managers and employees in their continuous development process through performance evaluations conducted transparently based on competences and measurable targets as well as regular feedback.

The Portfolio Management system allows branch employees to receive their monthly and annual performance scorecards in a more convenient fashion. Launching the Balanced Scorecard Model as part of the Corporate Performance Management Project as of 2011, the Bank began determining the key performance indicators and targets on the basis of the overall organization and the Head Office Departments as well as tracking and reporting the scorecard developments and trends in quarterly intervals.

As the branch network expansion efforts intensify as part of the Bank's growth, career opportunities proliferate for both the Head Office and branch employees while they can be promoted to managerial positions in a shorter period of time. Giving priority to the candidates who have developed from within the Bank and who have distinguished themselves with their performance in new managerial appointments, Kuveyt Türk appointed approximately 60 personnel as director/manager in 2011.

Another practice unveiled in 2011 was the "My Friend HR interviews". Reserving the Friday of each week for employee interviews, Kuveyt Türk's Human Resources Department listens to the expectations and demands of employees regarding various HR applications such as career, performance

and compensation. As part of this effort, the Department's objective is to get to know the employees more closely and to take more expedited action in response to their expectations.

### **Training and Development**

Taking heed of the personal and professional development of its employees in order to ensure the sustainability of the productivity of its human capital, Kuveyt Türk continued to implement many significant projects in this area in 2011.

Organizing classroom training and distance learning programs for its employees, the Bank focused mostly on postgraduate and MBA curriculums in partnership with universities in 2011.

The Bank organized 1,473 classroom training sessions on various subjects throughout the year while the average classroom training time per employee was 10 days. In addition, employees whose jobs require proficiency in English continued to attend foreign language classes in Turkey and abroad.

Constantly expanding its branch network in accordance with its strategic targets, Kuveyt Türk's Human Resources Department added a Core Banking Training Package to its training program geared mostly toward new recruits and 530 employees who joined the Bank in 2011 benefited from this package. The package consists of training programs on banking basics, laws and regulations, communication skills, customer satisfaction, shared corporate culture and the organization of Kuveyt Türk.

In addition, employees were presented with various training sessions and tests via the online training center in 2011. Kuveyt Türk employees completed a total of 19,750 online training courses in 2011. The Manager Development Program also continued throughout 2011 and this group of 269 employees received, on average, three days of training per person.

As part of the Mentoring Project that was initiated to increase employee loyalty in 2009, students who took part in the "Campus at the Bank" program were provided with mentoring support.

The 2011 MT Recruitment & Training process, which strives to recruit new graduates from Turkey's top universities to the Bank, was completed successfully. A six-month training schedule of classroom and on-the-job training was administered for the MT group comprising 16 people.

The first stage of the Service Culture Project developed by the Quality and Strategy Oversight Department was implemented in 2009. As part of the project's ongoing phases, 26 Service Culture training sessions were administered by the in-house instructor staff at the regions in 2011. These training sessions were attended by all employees. The Bank supports the development of all employees in accordance with the Service Quality principle of Vision 2014.

### **Quality and Strategy Oversight**

DÜRBÜN, the Job and Announcement System created in order to reduce e-mail traffic within Kuveyt Türk and to ensure that published announcements are read and job appointments are followed, was fully integrated with E-signature in 2011. This application automatically adds the Bank's advertisement to the end of e-mails that are sent outside of the Bank via Outlook. In addition to the Information Management efforts, portal pages were created for other departments on the intranet in response to requests. Agreement was reached with the related service provider to renew the portal interface and the change was implemented.

## HUMAN RESOURCES POLICIES

The Department studied the methods to open up the Sound Idea Platform to customers via the “saglamfikir.com.tr” web site, discussed the issue with Açık İnovasyon, and determined the initiatives to be carried out. Calls for ideas including process projects were published on the Sound Idea Platform, suggestions submitted to the general suggestions section of the Platform were evaluated, and suitable ones were identified and forwarded to those concerned.

The Meeting Management System commenced service and the fronts of Head Office meeting rooms were equipped with LCD screens.

As part of the initiative to overhaul Kuveyt Türk’s business processes in a more customer-oriented direction in accordance with the Bank’s strategies, process restructuring projects were launched in 2011. To this end;

- Process Improvement Principles were devised and announced within the Department.
- The Department searched for a process modeling software program, decided to purchase the Casewise program and installed this software for the process team.
- After attending training courses, the Department staff picked the method to be employed in process projects.
- Project plan and Process Implementation Principles were drawn up.
- The map of all Kuveyt Türk business processes was generated and published.

The Quality and Strategy Oversight Department continued to successfully execute projects for the processes involving the Treasury, Operations Center, International Banking and Investment Banking Departments in 2011. In addition, the Department teamed up with the Administrative Services Department to work

on the branch opening process. Cooperating with the Audit and Risk Group for the transactions to be performed as part of Management’s Declaration, the Department updated the processes serving this effort. As part of the “Problem of Inability to Reach Branches by Phone Project”, the Department provided support for the procurement of the Subscriber Tracking Program, which began making the requested reporting to all users and managers as of July 2011.

During the year the Quality and Strategy Oversight Department reviewed and successfully updated the Strategic Plan Report and Roadmap that was drawn up in 2009. As part of Vision 2014 and 2018, the Department revisited the Business Model, Financial Projections, Personnel and Branch Projections, and the Roadmap. In addition, APG controls for projects included in the Roadmap that was devised within the scope of Vision 2018 were performed. The Department paid visits to the related units regarding the identified projects and conveyed the scope and expectations of the projects.

Another project carried out by the Quality and Strategy Oversight Department in 2011 is the mystery customer surveys conducted for Kuveyt Türk’s branches, Call Center and Customer Satisfaction Center. Additionally, the Department also conducted an internal customer satisfaction survey as well as an NPS survey for the retail, small business and corporate banking segments. In this regard, the internal customer survey matrix was updated prior to the survey and the “Internal Customer Satisfaction Survey Implementation Principles” were drawn up in order to evaluate the servicing departments. “Values Educational Video” was produced in May 2011 to be used in training and “Values Training” commenced as of September 2011. A new hotline number, “444 3 123”, was launched for the Customer Satisfaction Center.

## CORPORATE COMMUNICATION ACTIVITIES

# Communication processes based on transparency and accountability

Conducting all of its activities in accordance with its social and environmental responsibilities, Kuveyt Türk continued to undertake reference projects in corporate social responsibility in 2011.

Kuveyt Türk's Corporate Communication Department is responsible for the development, coordination, implementation and control of media relations, advertising, internal communication, external communication and corporate social responsibility projects in accordance with the Bank's brand and business strategies.

The major corporate communication activities carried out by the Department are as follows:

- Devising, implementing and managing the media relations, advertising, internal communication, external communication and corporate social responsibility strategies of the Kuveyt Türk brand and its product/service sub-brands,
- Establishing coordination with advertising, media and PR agencies, Non-Governmental Organizations (NGO) and other organizations for the integrated communication plans of the Kuveyt Türk brand and its product/service sub-brands,
- Executing the media, advertising, internal communication, external communication and corporate social responsibility projects in accordance with their pre-determined objectives within the communication budget set for the Kuveyt Türk brand and its product/service sub-brands,
- Ensuring the best representation of the Kuveyt Türk brand at all points of contact with customers,
- Controlling the business processes of the third parties at the project development, planning, formation and implementation stages,
- Developing all communication activities and materials in keeping with Kuveyt Türk's image, brand values and communication plan,
- Supporting the other units involved with the business, communication and marketing plan promptly and with a high service quality on an as needed basis,
- Drafting the verbal and written texts for the internal communication (e-mails, address speeches, presentations, etc.) and press releases and conferences of the CEO and the Executive Vice President of the subject matter,
- Sharing the texts of the announcements (financial results, acquisitions, etc.), drafted to be presented to the media, through related channels with an eye toward local sensibilities,
- Sharing the information flow related to the communication processes of media, internal communication, external communication and corporate social responsibility projects with the related units, with the HR Department in particular, and obtaining the approvals for messages when necessary,
- Managing the internal communication portal and putting together the content of the portal,
- Controlling all kinds of expenses, purchases and procurement processes regarding all initiatives within its sphere of activity in accordance with the procedures,
- Coordinating the communication activities in accordance with the objective of increasing Kuveyt Türk's brand recognition, admiration, business and loyalty.

### CORPORATE COMMUNICATION ACTIVITIES IN 2011

#### Media Relations

Press release, special news file and press conference initiatives for Kuveyt Türk's new products and services were carried out successfully in 2011. The Bank's gold products and developments regarding its SUKUK issuance constituted a major part of these efforts.

#### Social Responsibility

Conducting all of its activities in accordance with its social and environmental responsibilities, Kuveyt Türk continued to undertake reference projects in corporate social responsibility in 2011. Also supported by the Bank's employees, these projects focus mostly on preservation of Turkey's historical and cultural heritage and passing these "values" onto the future generations. The major projects that stood out in this respect are as follows:

#### Historical Cultural Heritage

**Restoration of the Saliha Sultan Fountain:** The historic Saliha Sultan Fountain & Sebil was restored as part of the cooperation between the General Directorate of Foundations of Turkey and Kuveyt Türk within the scope of the "Preservation of At-Risk Historic Buildings Projects". Thanks to the successful completion of the restoration project of the Saliha Sultan Sebil & Fountain positioned behind the Sokullu Mehmet Paşa Mosque that is located in the Beyoğlu District, one of the major tourism hotspots of Istanbul, a major asset of Turkey's cultural heritage returned to its glory days.

## CORPORATE COMMUNICATION ACTIVITIES

**Restoration of the Kozahan Fountain:** The mosque and the fountain located at the center of the Koza Han, which was built in 1492 and served as the hub of Bursa's silk industry in past eras, were restored true to their original form by Kuveyt Türk Katılım Bankası under the oversight of the Regional Directorate of Foundations.

**Ortaköy Mosque:** Sponsoring projects for the preservation of historical and cultural heritage since 2005, Kuveyt Türk has also been supporting the restoration efforts of the Ortaköy Mosque, one of the most significant historical structures in Turkey, which commenced in May 2011. The restoration project is expected to be completed in mid-2012.

### Assistance Activities

Embracing social responsibilities as an integral element of its core activities, Kuveyt Türk, by way of contributing to the national-scale donation campaigns as well as direct delivery of supplies and services with the participation of its employees, supported the following in 2011:

- The friendly nation of Pakistan, which was devastated by the flood disaster
- Somalia, which experiences famine and child deaths due to drought
- Van, which suffered loss of life and economic damage after the earthquake

### Education Support Projects

Holding education projects in high esteem as part of its corporate social responsibility activities, Kuveyt Türk successfully continued its "Campus at the Bank" project in 2011 that aims to provide third and fourth-year university students with work

experience within the Bank while their educational life is ongoing. The project is intended to financially support university students while endowing them with experience prior to their professional careers.

### Environmental Projects

The first trees of the Ankara Kuveyt Türk Memorial Forest, a joint project of Kuveyt Türk's Central Anatolia Region Office and the Ankara Provincial Directorate of Environment and Forestry, were planted at an event organized in 2011.

Kuveyt Türk targeted prevention of paper waste by placing paper recycling boxes in the office spaces at the Bank's Head Office in 2011. As part of the same effort, the Bank scrapped the monthly account fees for customers who have signed up for the e-statement delivery.

### Culture & Art Activities

Also supporting publishing initiatives in an effort to preserve Turkey's cultural heritage, Kuveyt Türk pioneered the publication of two important books in 2011, "Vanishing Professions" and "Vanishing Fountains".

### Advertising and Publicity Initiatives

As part of its communication strategy practices carried out in accordance with sound banking approach and commitment to moral values, the Corporate Communication Department produced a commercial in 2011 featuring the motto of "How you do something matters as much as what you do". Thanks to this commercial that was broadcast through all communication channels, the public became more familiar with Kuveyt Türk's banking approach. Kuveyt

Türk, which does not charge account fees for its products and services, also used this theme intensively in its advertising and sponsorship initiatives in 2011.

The product sales and image-oriented initiatives that were supported intensively particularly with local communication efforts in 2011 made positive contributions to creating an awareness within the organization as well as outside it. Additionally, a sponsorship agreement was signed with ATV, a television channel geared to Kuveyt Türk's target audience, during the month of Ramadan and religious holidays.

Working proactively in overseeing the Bank's corporate identity applications, with a special emphasis on new branches, as well as procuring the artwork and advertisement fixtures for branch concepts, the Corporate Communication Department built branch-specific structures thanks to its creative applications. In addition, as part of the interactive projects that are planned for implementation in 2012, the Department undertook setup, system installation and monitoring-analysis efforts particularly in the social media field throughout the year.

Known for its commitment to moral values, participatory and sharing organization, pioneering products and its aspiration to always profit alongside its customers, Kuveyt Türk is determined to continue its advertising and publicity initiatives uninterruptedly with its entire communication staff in the period ahead.

## RELATED PARTY TRANSACTIONS

Information on transactions conducted within the Bank's risk group is provided in detail on pages 142 and 143 of the annual report.



## OUTSOURCED SERVICES

Service Provider	Nature of Service
AD Yazılım San. ve Danışmanlık Hiz. A.Ş.	Maintenance of information systems software services
Aktif Arşiv Belge Bilgi Yönetimi Organizasyon Yayıncılık San. ve Tic. Ltd. Şti.	Archive
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş.	Debit card, credit card, checkbook and account statement printing and electronic delivery of account statements
Brink's Taşıma Hizmetleri A.Ş.	Transportation of all types of cash, securities and precious metals
Collection Platform Yazılım ve Danışmanlık A.Ş.	Call Center
Corbuss Kurumsal Telekom Servis Hizmetleri A.Ş.	Maintenance of information systems software services
Cybersoft Enformasyon Teknolojileri Ltd. Şti.	Maintenance of information systems software services
Eastern Networks Çözümleri Tic. A.Ş.	Maintenance of information systems software services etc.
BASE Yazılım ve Bilişim Teknolojileri Ltd. Şti.	Maintenance of information systems software services
Hostamedia Bilişim Teknolojileri Türk Telekomünikasyon A.Ş.	Maintenance of information systems software services
İnnova Bilişim Çözümleri A.Ş.	Maintenance of information systems software services
Microsoft Co.	Maintenance of information systems software services
Securicor Verdi Güvenlik Hizmetleri ve Tic. A.Ş.	Transportation of all types of cash, securities and precious metals
Unisec Bilgisayar Hizmetleri Ticaret ve Sanayi Ltd. Şti.	Maintenance of information systems software services
Venüs Eğitim Danışmanlık Telekomünikasyon Organizasyon Bilgisayar Sanayi ve Tic A.Ş.	Maintenance of information systems software services
V.R.P. Veri Raporlama Programlama Bilişim Yazılım ve Danışmanlık Hiz. Tic. A.Ş.	Maintenance of information systems software services
PTT - AYPİM (Anatolian Side Mail Process Center)	Distribution of credit card statement
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş.	Debit card, credit card, checkbook and account statement printing and electronic delivery of account statements
Kuryenet Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş.	Distribution of debit card and credit card
Bizim Menkul Değerler A.Ş.	Stock certificate brokerage, investment consultancy
Turkcell İletişim Hiz. A.Ş.	POS lines, set-up lines
Avea İletişim Hizmetleri A.Ş.	POS lines
Asseco See Teknoloji A.Ş.	Virtual POS services
Özgün İnternet Yazılım Reklam Medya San. Tic. Ltd.Şti.	SME portal content services
Nexum Boğaziçi Elektronik Çözümler Danışmanlık Tic. A.Ş.	SME portal content services

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**REPORT OF THE BOARD OF STATUTORY AUDITORS**

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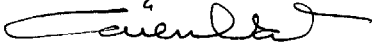
**TO THE GENERAL ASSEMBLY OF SHAREHOLDERS OF KUVEYT TÜRK KATILIM BANKASI A.Ş.**

**REPORT OF THE BOARD OF STATUTORY AUDITORS FOR 2011**

After analyzing the transactions and accounts of Kuveyt Türk Katılım Bankası A.Ş. in 2011 in light of the Turkish Commercial Code, Articles of Association and other related regulations, we conclude that the Bank's Balance Sheet and Profit-Loss Statement are in compliance with the accounting records and the records are in compliance with the documents.

Based on this conclusion, we recommend that the Balance Sheet and Income Statement for 2011 presented for approval by the Board of Directors be approved and with all due respect we express our consent for the profit to be allocated and distributed according to the principles proposed by the Board of Directors.

Respectfully yours,



**GÜVEN OBALI**  
STATUTORY AUDITOR



**MİKTAD YETİM**  
STATUTORY AUDITOR



**Ö. ASIM ÖZGÖZÜKARA**  
STATUTORY AUDITOR

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## ASSESSMENT OF THE AUDIT COMMITTEE REGARDING INTERNAL SYSTEMS

The Bank's units constituting the internal systems are the Internal Audit Department, Internal Control Department, Risk Management Department, and the Regulation and Compliance Department. As per the Bank's organizational structure, the units constituting the internal systems report directly to the Board of Directors. The Board of Directors has delegated its duties and responsibilities with regard to internal systems to the Audit and Risk Committee, which is appointed in charge of Internal Systems and consists of four Members of the Board of Directors. These units operate under the supervision and coordination of the Audit and Risk Committee.

Due to the global crisis whose reverberations continue to spread and intensify, as well as the developments in Turkey's commercial and social life, the concepts of risk, control and compliance remain on our agendas as areas that require particular attention. Within this scope, the departments constituting the internal systems performed their activities in 2011 as an element of the banking operations.

The Internal Audit Department performed its activities in 2011 in accordance with its work plan's requirements and stakeholder expectations and conducted special examinations as well as legal and administrative investigations in certain areas and circumstances as needed. As part of this process, in contrast with the previous years, a comprehensive assessment was performed regarding the effectiveness, adequacy and compliance of the information systems general controls and business process controls of the Bank. These assessments form a sound basis for the Management's Declaration that the Board of Directors is obligated to make for the first time in 2011 and at the end of January 2012 as per the regulations.

In line with Kuveyt Türk's 2018 strategy and its expanding branch network, the Internal Control Department organized its activities into three groups: On-Site Control Activities, Central Control and Monitoring Activities, Information Systems Control and Internal Control System Design Activities. This realignment was aimed at increased efficiency and effectiveness in the audit process owing to business process specialization and continuous controls. Within this framework, the Department's activities in 2011 were conducted with a proactive and dynamic approach using general or special methodologies in accordance with the criterion of materiality and a risk-oriented approach covering the Bank's various business lines, units, branches and processes. Encouraging active participation toward the development, design and improvement of new products, services and business processes, the Internal Control Department's activities contributed to the improvement of the internal control system and broader adoption of the internal control culture within the Bank.

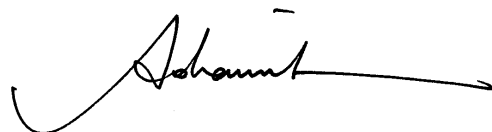
In addition to its efforts regarding credit and market risks, liquidity risk, operational risks and all limits, and IT risks, the Risk Management Department is also actively involved in internal retail scoring and corporate rating modeling, IT risk assessment, operational loss database, key risk indicators, operational risk insurances, market risk calculations, control of Treasury activities, asset and liability, liquidity risks, stress tests and scenario analyses, and transition to Basel II. As part of its operational risk initiatives, the Department took part in the Bank-wide process modernization and modeling project and contributed to the efforts to determine the risk points of the Bank's processes and IT risk assessment efforts. The infrastructure work for switching to Advanced Methods as part of BASEL II compliance is ongoing while progress was made in internal retail scoring and corporate rating modeling efforts. In addition, detailed plans were drawn up to prevent business interruption and ensure business continuity in the case of emergency situations.

The Regulation and Compliance Department notified the related units about the changes in laws and regulations that concern the Bank's operations and undertook initiatives regarding the compliance of the Bank's internal regulations and practices. The Department rendered advisory service concerning existing and new laws and regulations and performed activities regarding the design and provision of new products and services in compliance with legal and regulatory requirements. The Department also conducted compliance efforts with the local laws and regulations regarding the Bank's newly opened and planned overseas branches.

The Audit and Risk Committee held seven meetings in 2011. The departments constituting the Bank's internal systems undertook their activities in cooperation with the other departments of the Bank in accordance with the principles of independence, objectivity, effectiveness, adequacy and separation of powers.



**AZFAR HUSSAIN QARNI**  
MEMBER OF THE AUDIT COMMITTEE



**ADNAN ERTEM**  
CHAIRMAN OF THE AUDIT COMMITTEE

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## ASSESSMENT OF FINANCIAL POSITION, PROFITABILITY AND DEBT SERVICING CAPACITY

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As of year-end 2011, Kuveyt Türk Katılım Bankası increased its total assets by 51.5% to TL 14.5 billion and its shareholders' equity by 15.36% to TL 1.47 billion. Accordingly, the Bank's capital adequacy ratio stood at 16.28%, above the legally required limit. The Bank continues to use its resources effectively and productively and to increase its profit. Detailed information on the Bank's financial position, profitability and debt servicing capacity can be found in the financial statements and independent auditor's report section.

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## RATINGS OF KUVEYT TÜRK BY INTERNATIONAL RATING AGENCIES

The ratings issued by international rating agencies that were authorized in accordance with the Regulation on the Principles Regarding the Authorization and the Activities of Rating Agencies, and their contents, are presented below.

### FITCH RATINGS

Foreign Currency		National	
Long Term	<b>BBB-</b>	Long Term	<b>AAA (TUR)</b>
Short Term	<b>F3</b>	General Outlook	<b>STABLE</b>
General Outlook	<b>STABLE</b>	Individual	<b>WD</b>
		Support	<b>2</b>
Local Currency		Country Risk	
Long Term	<b>BBB</b>	Foreign Currency Long Term	<b>BB+</b>
Short Term	<b>F3</b>	Local Currency Long Term	<b>BB+</b>
General Outlook	<b>STABLE</b>	General Outlook	<b>STABLE</b>
		Country Ceiling	<b>BBB-</b>



## INFORMATION ON RISK MANAGEMENT POLICIES

### Credit Risk Management Policies and Procedures

The fundamental objectives of Kuveyt Türk's credit risk policy is to measure the counterparty risks assumed in the course of credit transactions, to monitor risk within the framework of legal and Bank limits, to research new techniques and practices in measuring and controlling risks, to monitor overdue receivables, to analyze reasons for such payment delays and to take the necessary measures.

In accordance with the CRD/Basel II document and the recommendations of the Banking Regulation and Supervision Agency of Turkey, the fundamental principle for the Bank's senior management is to administer and oversee credit policies. The Risk Management and Treasury Control Department works in conjunction with the Bank's senior management to set these strategies.

The credit risk policy in general encompasses guidance and explanatory information on enforcement and procedures regarding target customer selection, authority of extending and disbursing loans, transfer of authority, the organizational structure of the Credit Committee, credit limits, provisions and collaterals, principles of allocating limits, risk monitoring, control and improvement, risk analysis of new products, key risk points and risk mitigation measures for risk points.

### Market Risk Management Policies and Procedures

The fundamental objective of the market risk policy is to achieve the Bank's profitability and growth targets by minimizing risks that may arise from all kinds of foreign exchange, gold, stock and derivative transactions as well as structural interest rate risk that the Bank may be exposed to during these transactions and to maintain the Bank's capital adequacy ratio in accordance with these goals.

Market risk is managed by the Risk Management and Treasury Control Department and the Treasury Department, in light of the decisions of the Assets-Liabilities Committee, the prevailing market conditions and trends and in accordance with frequently updated long- and short-term market forecasts by way of portfolio diversification. To this end, transaction and portfolio limits set by the Assets-Liabilities Committee and approved by the senior management are used as a guidance tool.

The acceptable risk level in Treasury operations is determined using such guidance tools as management-approved customer limits, transaction limits, permissible transaction types, counterparty and country limits. To avoid assuming excessive market and liquidity risks, the Bank also monitors the liquidity position, the stock and foreign exchange positions and their profitability, the total daily profit-loss status and the balance of the nostro accounts on a daily basis. The Maturity Mismatch (GAP) Analysis Report generated weekly also allows the Assets-Liabilities Committee to closely monitor the Bank's maturity mismatch risks. In response to the possibility of positions exceeding the Bank's risk limits, hedging trades that can be put on by the Treasury Department instantaneously reduce Kuveyt Türk's mismatch and position risks down to reasonable levels within commensurate limits.

The system of guiding limits and informational reporting system used by Kuveyt Türk to manage market risks is based on the following principles:

- Ensuring that risk management concept works in practice,
- Risk-taking activities are compatible with the Bank's risk-taking capability and capacity,
- Ensuring that levels of risk are managed consistent with both the markets where risks are taken and with the Bank's risk-taking capacities.

### Operational Risk Management Policies and Procedures

Kuveyt Türk has established a management structure that is compatible with operational risk policies and implementation procedures in all business lines, risk management functions and control areas.

The operational risk points are responsible for managing external functions such as insurance, benefits and taking collateral, as well as procurement of services from third parties. In this process, these points are responsible for effectively communicating with the personnel engaged in managing credit, market and other risks.

Kuveyt Türk's operational risk framework takes into consideration all structural flaws, deficiencies and difficulties found in business line areas of activity. For this reason, while establishing its operational risk profile, implementation procedures and oversight infrastructure for risk management, the Bank takes reviews the level and degree of importance of all operational risks. The Bank's risk-management principle is to minimize risk to the maximum extent as well as review solution-oriented functional benefits. In this context, the Bank evaluates and manages operational risks by also taking into account the operational capabilities and workload of its extensive branch network and banking service groups.

The operational risk management process consists of defining and measuring risks by appropriate policies and processes, as well as testing and controlling activities through an effective internal control system.

## FIVE-YEAR SUMMARY FINANCIAL INFORMATION

Summary financial highlights (TL thousand)	2011*	2010*	2009*	2008*	2007*
Profit sharing income	882,153	639,251	620,640	508,106	354,008
Profit sharing expense	437,367	318,096	369,844	336,696	216,149
Net fee and commission income	172,813	140,051	128,884	125,689	92,144
Other income	130,996	110,508	96,124	96,077	34,939
Other expenses	466,576	361,578	304,774	276,403	179,025
Provision for taxes	49,731	41,576	36,749	25,505	18,839
Net profit for the period	232,288	168,560	134,281	91,268	67,078
Total assets	14,533,533	9,594,264	6,814,897	5,718,698	3,860,015
Total shareholders' equity	1,471,716	1,275,765	817,481	688,700	404,422
Capital adequacy ratio (%)	16.28	17.05	14.84	15.63	14.72

\* Consolidated figures



**KUVEYT TÜRÖ KATILIM BANKASI  
ANONİM ŐİRKETİ**

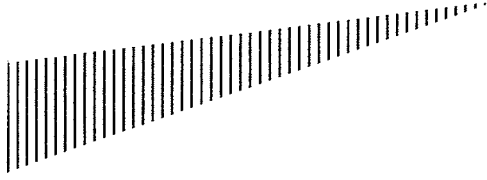
**CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT AS AT DECEMBER 31, 2011**

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Consolidated statement of comprehensive income	75
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**ERNST & YOUNG**

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**Independent auditors' report to the Board of Directors of Kuveyt Türk Katılım Bankası Anonim Şirketi on the consolidated financial statements for the year ended December 31, 2011**

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes.

***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 27, 2012  
Istanbul, Turkey

**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

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

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

**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

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

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

**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

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

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

**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL)

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

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



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**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

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## 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 25, 2012. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

### Nature of activities of the Bank and its subsidiaries

At December 31, 2011, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 100% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/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 of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial investments held for trading and precious metals that have been measured at fair value.

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

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**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA – TL UNLESS OTHERWISE INDICATED)

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**Changes in accounting policies**

***New and amended standards and interpretations:***

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

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

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

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

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

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

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

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

**IAS 24 Related Party Disclosures (Revised)**

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

***Improvements to IFRSs***

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

***IFRS 3 Business Combinations***

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

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

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**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA - TL UNLESS OTHERWISE INDICATED)

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ii) Measurement of non-controlling interests

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

iii) Unreplaced or voluntarily replaced share-based payment awards

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

*IFRS 7 Financial Instruments: Disclosures*

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

*IAS 1 Presentation of Financial Statements*

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

*IAS 27 Consolidated and Separate Financial Statements*

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

*IAS 34 Interim Financial Reporting*

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

*IFRIC 13 Customer Loyalty Programmes*

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

**Standards issued but not yet effective and not early adopted**

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

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

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

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**KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011**  
(CURRENCY – IN THOUSANDS OF TURKISH LIRA – TL UNLESS OTHERWISE INDICATED)

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

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

**IAS 19 Employee Benefits (Amended)**

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

**IAS 27 Separate Financial Statements (Amended)**

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

**IAS 28 Investments in Associates and Joint Ventures (Amended)**

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

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

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

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

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

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

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

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**IFRS 9 Financial Instruments – Classification and measurement**

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

**IFRS 10 Consolidated Financial Statements**

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

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

**IFRS 11 Joint Arrangements**

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

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

**IFRS 12 Disclosure of Interests in Other Entities**

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

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

**IFRS 13 Fair Value Measurement**

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

**Reclassifications**

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

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**Significant accounting judgments and estimates**

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

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

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

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

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

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

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

**Functional and presentation currency**

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

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2011 and 2010 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

**Consolidation of subsidiaries**

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2011 and 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2011 and 2010, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

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

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

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

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

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

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

Name of subsidiary	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2011	December 31, 2010
"Körfez"	Turkey	100%	100%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Dubai Limited"	Turkey	100%	100%
"Kuveyt Turk Sukuk Ltd. (SPV)"	United Kingdom	-	-
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	100%	-

#### Foreign currency translation

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

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

Dates	USD / TL	EUR / TL
December 31, 2010	1.54	2.04
December 31, 2011	1.91	2.46

#### Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 1.6709 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

#### Property and equipment

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

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

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

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

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

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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.

#### **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.

#### **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.

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

***Available-for-sale financial assets***

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

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

***Financial assets at fair value through profit or loss***

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

***Held to maturity investments***

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

***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.

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#### 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.

#### 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.

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### 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.

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.

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***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.

**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.

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### Provisions

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

### Leases

#### The group as lessee

#### Operating leases

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

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

#### Finance lease

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

#### The group as lessor

#### Finance lease

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

### Income and expense recognition

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

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.

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### 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.

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.

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

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

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

#### **Subsequent events**

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

#### **Segment information**

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

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

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

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

The Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2011 or 2010.

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

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

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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, 2011 and 2010, respectively.

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

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



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

**4. Cash and balances with banks**

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

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As of December 31, 2011 and 2010, “balances with other banks and financial institutions” are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed follows:

	2011				2010			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	-	299,872	-	1.38%	302,531	150,488	6.90%	0.63%
<b>Total</b>	-	<b>299,872</b>			302,531	150,488		

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

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

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations. The required reserve rates are 11% up to 3-month maturity, 8% up to 6-month maturity, 6% up to 1-year maturity and 5% with 1-year or longer maturity in Turkish Lira and 11% up to 1-year maturity and 9% with 1-year or longer maturity in foreign currency.

**6. Financial assets**

**Available-for-sale**

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

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

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

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

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

**Held for trading**

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

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

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

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

**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

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Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as of December 31, 2011 are given in the table below:

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

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

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

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

For the year ended December 31, 2011 the Bank took possession of collateral (lands and buildings) from customers amounting to TL 31,127 (December 31, 2010 - TL 35,247), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

The movement in impairment allowance is as follows:

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

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

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

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

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

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

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

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

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

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

Gross investment in finance leases as to their maturity:

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

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



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

Net investment in finance leases as to their maturity:

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

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

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

### 9. Other assets

Other assets comprise the following:

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

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

### 10. Construction projects, net

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

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

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**11. Investment properties, net**

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

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

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

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

At December 31, 2011, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 15,393 (December 31, 2010 - TL 16,278), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

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

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

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**13. Property and equipment, net**

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

(\*) TL 766 (net) and TL 1,901 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2011 and 2010, respectively. There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2010						
Cost	62,019	94,544	47,092	3,091	56	206,802
Accumulated depreciation	(7,762)	(47,902)	(32,114)	(2,687)	-	(90,465)
Accumulated impairment	(662)	-	-	-	-	(662)
<b>Net carrying amount</b>	<b>53,595</b>	<b>46,642</b>	<b>14,978</b>	<b>404</b>	<b>56</b>	<b>115,675</b>
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)
<b>Net carrying amount</b>	<b>16,681</b>	<b>95,754</b>	<b>29,770</b>	<b>270</b>	<b>-</b>	<b>142,475</b>

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

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

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**14. Intangible assets, net**

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

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

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

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

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

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

	<b>Amount in TL</b>	
	<b>2011</b>	2010
<b>Sukuk certificates issued</b>	<b>867,927</b>	156,433
<b>Total</b>	<b>867,927</b>	156,433

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%.

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

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

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

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

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

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

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

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

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

	2011		2010	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US\$	316,529,501	603,463	256,974,774	397,283
Euro	83,962,264	206,480	83,614,270	171,334
Precious metals		813,907		124,032
Other		31,037		2,231
		<b>1,654,887</b>		694,880
Profit/loss sharing investors' accounts:				
US\$	640,064,516	1,220,283	1,954,070,352	1,318,536
Euro	282,677,700	695,161	1,244,337,121	576,002
Precious metals		1,195,028		348,398
		<b>3,110,472</b>		2,242,936
		<b>4,765,359</b>		2,937,816

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

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

### 17. Income taxes

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

In Turkey, the corporation tax rate for the fiscal years ending on December 31, 2011, and 2010 is 20%. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2006 - 2011), as the amount, if any, cannot be estimated with any degree of certainty.



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

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

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2011 and 2010 is as follows:

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

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

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

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Movement of net deferred tax asset is:

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

**18. Other liabilities and provisions**

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

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

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

**Reserve for employee termination benefits**

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2.7 and TL 2.5 at December 31, 2011 and 2010, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2011 and 2010, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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

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

### 19. Derivative financial instruments

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

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

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

December 31, 2011								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
<b>Derivatives held for trading</b>								
Inflows	74,865	-	2,640,703	1,318,712	812,752	509,239	-	-
Outflows	-	38,265	2,606,100	1,308,625	789,576	507,899	-	-
	74,865	38,265	5,246,803	2,627,337	1,602,328	1,017,138	-	-
December 31, 2010								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
<b>Derivatives held for trading</b>								
Inflows	28,480	-	1,439,739	945,163	78,245	99,941	314,885	1,505
Outflows	-	14,300	1,420,369	944,181	76,043	94,080	304,565	1,500
	28,480	14,300	2,860,108	1,889,344	154,288	194,021	619,450	3,005

### 20. Share capital

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

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

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

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

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

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

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

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

### Legal reserves

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

### Dividends paid and proposed

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

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

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### 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.

### 22. Earnings per share

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

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

There is no dilution of shares as of December 31, 2011 and 2010.

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

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

### 23. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2010 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2010 - 18.7%), 9.0% (December 31, 2010 - 9.0%) and 9.0% (December 31, 2010 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2011 and 2010 and transactions have been entered into with related parties during the years ended:

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

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

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

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

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

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

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



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**iv) Profit shares distributed:**

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

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

**v) Non cash credits issued:**

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

(1) Shareholders.

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

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

**Directors' remuneration**

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

The key management personnel of the Bank are as follows:

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

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

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**24. Fees and commission income and expense**

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

**25. Salaries and employee benefits**

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

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**26. Other expenses**

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

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

**27. Commitments and contingencies**

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

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

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

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

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

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

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

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

#### Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 4,162 and TL 1,428 as of December 31, 2011 and 2010 respectively. As of December 31, 2011, the amount of the checks and bonds in collection are TL 2,392,255 (December 31, 2010 – TL 1,257,619) and TL 416,311 (December 31, 2010 – TL 271,256) respectively.

## 28. Financial risk management

### Introduction

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

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

### Organization of the risk management function

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

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

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

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

### Internal systems and risk management policies

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

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**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.

**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.

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

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

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

**Risk concentrations of the maximum exposure to credit risk**

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

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2011 was TL 112,032 (December 31, 2010 - TL 145,418) and non cash credit exposure as of December 31, 2011 was TL 186,728 (December 31, 2009 - TL 148,663) before taking account of collateral or other credit enhancements.

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

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



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**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.

**Credit quality per class of financial assets**

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

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

2010	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	623,989	933,913	-	-	-	1,557,902
Financing and leasing receivables	221,613	3,063,049	128,234	-	3,543,514	6,956,410
Corporate lending	219,456	3,040,618	127,935	-	1,193,583	4,581,592
Small business lending	1,666	17,239	46	-	886,770	905,721
Consumer lending	-	-	-	-	1,392,133	1,392,133
Credit cards	491	5,192	253	-	71,028	76,964
Contingent liabilities and other guarantees	452,106	2,008,123	81,866	-	1,188,113	3,730,208
Commitments	625,386	-	-	-	659,285	1,284,671
<b>Total</b>	<b>1,923,094</b>	<b>6,005,085</b>	<b>210,100</b>	<b>-</b>	<b>5,390,912</b>	<b>13,529,191</b>

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

2011	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	154,181	56,374	7,060	-	217,615
Consumer lending	6,436	18,087	9,338	-	33,861
Small business lending	37,873	42,291	24,538	-	104,702
Credit cards	862	-	5	-	867
<b>Total</b>	<b>199,352</b>	<b>116,752</b>	<b>40,941</b>	<b>-</b>	<b>357,045</b>
2010	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	9,111	3,491	13,062	-	25,664
Consumer lending	122,055	40,289	15,433	-	177,777
Small business lending	52,203	18,869	8,380	-	79,452
Credit cards	4,709	2,657	1,246	-	8,612
<b>Total</b>	<b>188,078</b>	<b>65,306</b>	<b>38,121</b>	<b>-</b>	<b>291,505</b>

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

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

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

#### Liquidity risk

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

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

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

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

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

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

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

<b>Financial liabilities</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>As at December 31, 2011</b>						
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
<b>Total undiscounted financial liabilities</b>	<b>2,868,183</b>	<b>8,197,371</b>	<b>2,231,169</b>	<b>1,896,237</b>	<b>391,902</b>	<b>15,584,862</b>
<b>As at December 31, 2010</b>						
Due to other financial institutions and banks	-	121,245	368,170	-	-	489,415
Sukuk Issued	-	-	-	179,314	-	179,314
Derivative financial instruments(*)	-	1,020,224	398,645	1,500	-	1,420,369
Current accounts	1,751,681	-	-	-	-	1,751,681
Profit and loss sharing accounts(**)	-	4,509,914	629,429	588,260	-	5,727,603
<b>Total undiscounted financial liabilities</b>	<b>1,751,681</b>	<b>5,651,383</b>	<b>1,396,244</b>	<b>769,074</b>	<b>-</b>	<b>9,568,382</b>

(\*) 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.

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

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

**Market risk**

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

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

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

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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.

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

**Interest risk**

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

**Currency risk**

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

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

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



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

**December 31, 2011**

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

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**December 31, 2010**

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

**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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**Capital adequacy**

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2011 and 2010, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

*Capital management*

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

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

**Regulatory capital**

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

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## 29. Fair value of financial instruments

### Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2011, the fair value of financing and leasing receivables has been estimated as TL 10,245,524 (December 31, 2010 – TL 7,027,590) whereas their carrying amount is TL 10,250,117 (December 31, 2010 – TL 6,956,410).

Fair value of borrowings (including sukuk certificates issued and subordinated loans) at amortized cost is estimated as TL 2,854,962 (December 31, 2010 – TL 643,087), whereas their carrying amount is TL 2,779,531 (December 31, 2010 – TL 639,405). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

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

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

## 30. Subsequent events

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

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

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## CONTACT INFORMATION AND BRANCH DIRECTORY

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Board of Inspectors Fax: +90 (212) 354 13 42  
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### Ağrı Branch:

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Sarayı Karşısı No: 11 AĞRI/TURKEY  
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### Alaaddin (Konya) Branch:

Mevlana Cad. No: 3 Karatay-KONYA/TURKEY  
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### Alanya (Antalya) Branch:

Saray Mah. Atatürk Cad. No: 88  
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### Altunizade Branch:

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Fax: +90 (216) 474 02 64

### Ankara Branch:

Şehit Teğmen Kalmaz Cd. 17/A  
Ulus-ANKARA/TURKEY  
Tel: +90 (312) 310 35 15 (PBX)  
Fax: +90 (312) 311 66 60

### Antakya (Hatay) Branch:

Yavuz Selim Cad.Çuhadaroğlu  
İşmrk 1 ANTAKYA/TURKEY  
Tel: +90 (326) 225 28 01 (PBX)  
Fax: +90 (326) 225 28 04

### Antalya Branch:

Adnan Menderes Bulvarı No: 25/1  
ANTALYA/TURKEY  
Tel: +90 (242) 241 06 95 (PBX)  
Fax: +90 (242) 241 07 00

### Aspendos Bulvarı Branch:

Mehmetçik Mh.Aspendos Bulv. No: 69/E  
ANTALYA/TURKEY  
Tel: +90 (242) 311 05 58 (PBX)  
Fax: +90 (242) 311 05 60

### Avcılar Branch:

Reşitpaşa Cad.Yazgan Ap.A Blok 39/1  
Avcılar/ISTANBUL/TURKEY  
Tel: +90 (212) 590 98 97  
Fax: +90 (212) 509 86 12

### Aydın Branch:

Ramazanpaşa Mah.Doğu Gazi Bulvarı No: 1  
AYDIN/TURKEY  
Tel: +90 (256) 214 34 24  
Fax: +90 (256) 214 34 45

### Aziziye (Konya) Branch:

Mevlana Cad. No: 44/B KONYA/TURKEY  
Tel: +90 (332) 350 20 00 (PBX)  
Fax: +90 (332) 350 75 76

### Bağcılar Branch:

ISTANBUL Cad. Çınar Mah. No: 31  
Bağcılar/ISTANBUL/TURKEY  
Tel: +90 (212) 634 31 94 (PBX)  
Fax: +90 (212) 634 74 93

### Bahçelievler Branch:

Adnan Kahveci Bulvarı Ömür Sitesi  
30 B.Evler-ISTANBUL/TURKEY  
Tel: +90 (212) 539 02 92 (PBX)  
Fax: +90 (212) 539 03 83

### Bahçeşehir Branch:

Kemal Sunal Cad.Galeria Alışveriş Merkezi  
No: 19/14 Bahçeşehir  
Başakşehir/ISTANBUL/TURKEY  
Tel: +90 (212) 669 59 00 (PBX)  
Fax: +90 (212) 669 59 77

### Bakırköy Branch:

ISTANBUL Cad. No: 13 34720  
Bakırköy/ISTANBUL/TURKEY  
Tel: +90 (212) 543 92 60 (4 Hat)  
Fax: +90 (212) 543 92 64

### Balgat Branch:

Ziyabey Cad.No: 53  
Balgat-Çankaya/ANKARA/TURKEY  
Tel: +90 (312) 287 57 74 (PBX)  
Fax: +90 (312) 287 58 57

**Balıkesir Branch:**

Milli Kuvvetler Cad. No: 77/C  
BALIKESİR/TURKEY  
Tel: +90 (266) 241 70 70 (PBX)  
Fax: +90 (266) 241 24 54

**Bartın Branch:**

Kırtepe Mah. Cumhuriyet Cad.  
No: 29/A BARTIN/TURKEY  
Tel: +90 (378) 227 80 22 (PBX)  
Fax: +90 (378) 227 80 06

**Başakşehir Branch:**

Başak Mah. Ertuğrulgazi Cad. 21/2E  
Başakşehir/İSTANBUL/TURKEY  
Tel: +90 (212) 488 41 31 (PBX)  
Fax: +90 (212) 488 41 30

**Başkent Corporate Branch:**

Ziyabey Cad. No:53 Balgat-Çankaya/  
ANKARA/TURKEY  
Tel: +90 (312) 287 53 04 (PBX)  
Fax: +90 (312) 287 55 67

**Batman Branch:**

Atatürk Bul. Diyarbakır Cad.  
No: 56/ABC BATMAN/TURKEY  
Tel: +90 (488) 215 11 99 (PBX)  
Fax: +90 (488) 215 11 44

**Bayrampaşa Branch:**

Abdi İpekçi Cad. No: 67  
Bayrampaşa/İSTANBUL/TURKEY  
Tel: +90 (212) 576 45 07 (PBX)  
Fax: +90 (212) 576 46 04

**Bekirpaşa Branch:**

28 Haziran Mh.Turan Güneş Cd. 295  
Kocaeli/İZMİR/TURKEY  
Tel: +90 (262) 324 11 21 (PBX)  
Fax: +90 (262) 324 70 30

**Beşiktaş Branch:**

Sinanpaşa M.Sinanpaşa Köprü Sk. 12  
Beşiktaş/İSTANBUL/TURKEY  
Tel: +90 (212) 260 66 19 (PBX)  
Fax: +90 (212) 261 21 36

**Beşyüzevler Branch:**

Eski Edirne Asfaltı No: 186 Beşyüzevler/İST.  
Tel: +90 (212) 535 99 92 (PBX)  
Fax: +90 (212) 535 85 58

**Beyazıt Branch:**

Yeniçeriler Cad. No: 7  
Çemberlitaş-Eminönü/İSTANBUL/TURKEY  
Tel: +90 (212) 518 60 78 (PBX)  
Fax: +90 (212) 518 60 51

**Beylikdüzü Branch:**

Beylikdüzü Sanayi Sitesi No: 1-2  
Beylikdüzü/İST.  
Tel: +90 (212) 873 51 59 (PBX)  
Fax: +90 (212) 873 58 51

**Bodrum Branch:**

Yokuşbaşı Mh.Hasan Reşat Öncü  
Cd. 10 Bodrum-MUĞLA/TURKEY  
Tel: +90 (252) 313 54 03  
Fax: +90 (252) 313 53 92

**Bolu Branch:**

Büyük Cami M. İzzet Baysal C. Belediye  
Meydanı 116 BOLU/TURKEY  
Tel: +90 (374) 217 04 77 (PBX)  
Fax: +90 (374) 217 01 67

**Bostancı Branch:**

Emin Ali Paşa Cad. Bostaniçi Sk.  
No: 2/14 Kadıköy/İSTANBUL/TURKEY  
Tel: +90 (216) 372 04 40 (PBX)  
Fax: +90 (216) 372 03 66

**Buca Branch:**

İnönü Mah. Uğur Mumcu Cad.  
No: 92-92-A Buca/İZMİR  
Tel: +90 (232) 487 47 67 (PBX)  
Fax: +90 (232) 487 89 07

**Bursa Branch:**

Ankara Cad. No: 77/1-A  
Yıldırım/BURSA/TURKEY  
Tel: +90 (224) 360 60 44 (PBX)  
Fax: +90 (224) 360 77 22

**Büsan Branch:**

Büsan San.Sitesi Fevzi Çakmak Mah. KOSGEB  
Cad. No: 22 Karatay/KONYA/TURKEY  
Tel: +90 (332) 345 08 84 (PBX)  
Fax: +90 (332) 345 08 86

**Carrefoursa Bayrampaşa Branch:**

Carrefour Tic. Merk. B20a Bayrampaşa/  
İSTANBUL/TURKEY  
Tel: +90 (212) 640 08 18 (PBX)  
Fax: +90 (212) 640 07 71

**Cebeci-Ankara Branch:**

Cemal Gürsel Cad. No: 81/13-14  
Cebeci/ANKARA/TURKEY  
Tel: +90 (312) 320 42 22 (PBX)  
Fax: +90 (312) 320 42 62

**Cennet Mahallesi Branch:**

Cennet Mah. Yahya Kemal Beyatlı Cad. No: 25  
Küçükçekmece/İSTANBUL/TURKEY  
Tel: +90 (212) 541 71 89 (PBX)  
Fax: +90 (212) 426 11 38

**Çağlayan Branch:**

Vatan Cad. No: 19/A Çağlayan-Kağıthane/  
İSTANBUL/TURKEY  
Tel: +90 (212) 233 43 10 (PBX)  
Fax: +90 (212) 233 30 15

**Çankaya Branch:**

Aziziye Mah. Hoşdere Cad. No: 165  
Çankaya/ANKARA/TURKEY  
Tel: +90 (312) 438 14 41 (PBX)  
Fax: +90 (312) 438 13 66

**Çiğli-İZMİR Branch:**

Maltepe Cad. No:2/E Çiğli/İZMİR/TURKEY  
Tel: +90 (232) 376 37 30 (PBX)  
Fax: +90 (232) 376 13 80

**Çorlu Branch:**

Omurtak Cad. No: 79/2  
Heykel/ÇORLU/TURKEY  
Tel: +90 (282) 654 00 20 (PBX)  
Fax: +90 (282) 654 00 33

**Çukurova (Adana) Branch:**

Turgut Özal Bulvarı No: 133/27/28/36  
Çukurova/ADANA/TURKEY  
Tel: +90 (322) 232 48 22 (PBX)  
Fax: +90 (322) 235 66 50

**Demetevler Branch:**

Demetevler 4.Cadde 4/A  
Yenimahalle/ANKARA/TURKEY  
Tel: +90 (312) 336 77 97 (PBX)  
Fax: +90 (312) 335 99 47

**Demirtaş-Bursa Branch:**

Panayır Mh.Yeni Yalova Yolu No: 455/G  
Osmangazi/BURSA/TURKEY  
Tel: +90 (224) 211 11 85 (PBX)  
Fax: +90 (224) 211 01 48

**Demirtepe-Ankara Branch:**

Kızılay Mh.Fevzi Çakmak Sk.No: 24/33-34  
Çankaya/ANKARA/TURKEY  
Tel: +90 (312) 230 21 25 (PBX)  
Fax: +90 (312) 230 77 33

**Denizli Branch:**

İkinci Ticariyol Cd. No: 10  
Bayramyeri/DENİZLİ/TURKEY  
Tel: +90 (258) 264 92 90 (PBX)  
Fax: +90 (258) 264 94 91

**Diyarbakır Branch:**

Gazi Cad. No: 27/D DİYARBAKIR/TURKEY  
Tel: +90 (412) 223 53 48 (PBX)  
Fax: +90 (412) 223 51 00

**Dolayoba Branch:**

Çınardere Mah.E-5 Yanyolu No: 71/A  
Pendik/İSTANBUL/TURKEY  
Tel: +90 (216) 379 02 00 (PBX)  
Fax: +90 (216) 379 02 01

**Düzce Branch:**

İSTANBUL Caddesi No: 9 DÜZCE/TURKEY  
Tel: +90 (380) 512 17 76 (PBX)  
Fax: +90 (380) 514 99 26

**Elazığ Branch:**

Hürriyet Cad. No: 14 ELAZIĞ/TURKEY  
Tel: +90 (424) 238 80 81 (PBX)  
Fax: +90 (424) 238 80 88

**Eminönü Branch:**

Ankara Cad. No: 159  
Sirkeci/İSTANBUL/TURKEY  
Tel: +90 (212) 514 87 17 (PBX)  
Fax: +90 (212) 514 87 34

**Erenköy Branch:**

Şemsettin Günaltay C. No: 266/1  
Erenköy/İSTANBUL/TURKEY  
Tel: +90 (216) 359 41 09 (PBX)  
Fax: +90 (216) 359 41 08

**Erzincan Branch:**

Fevzipaşa Cad. No: 40 ERZİNCAN/TURKEY  
Tel: +90 (446) 212 09 09 (PBX)  
Fax: +90 (446) 212 33 66

**Erzurum Branch:**

İstasyon Cad.Merkez Bankası Karşısı  
No: 24 ERZURUM/TURKEY  
Tel: +90 (442) 235 76 26 (PBX)  
Fax: +90 (442) 235 76 32

**Esenler Branch:**

Atışalanı Cad. No: 44/B  
Esenler/İSTANBUL/TURKEY  
Tel: +90 (212) 508 17 87 (PBX)  
Fax: +90 (212) 508 77 34

**Esentep Corporate Branch:**

Büyükdere Cad.TEV-Kocabaş İşhanı No: 111  
Kat: 5 Gayrettepe-Şişli/İSTANBUL/TURKEY  
Tel: +90 (212) 217 32 55 (PBX)  
Fax: +90 (212) 217 35 22

**Esenyurt Branch:**

Doğan Araslı Bulvarı Tabela Durağı No: 85/2  
Esenyurt/İSTANBUL/TURKEY  
Tel: +90 (212) 699 33 55 (PBX)  
Fax: +90 (212) 699 33 50

**Eskişehir Branch:**

İsmet İnönü Cad. No: 2 ESKİŞEHİR/TURKEY  
Tel: +90 (222) 220 23 50 (PBX)  
Fax: +90 (222) 220 20 33

**Eskişehir Sanayi Branch:**

S.S.Eskişehir Mobilya ve Ağaç İşleri (EMKO)  
Küçük Sanayi Sitesi Yapı Koop. A1 Blok No:  
2/B ESKİŞEHİR/TURKEY  
Tel: +90 (222) 228 02 44 (PBX)  
Fax: +90 (222) 228 02 40

**Etlük Branch:**

Emrah Mah.Yunus Emre Cad. 8/A Etlük-  
Keçiören/ANKARA/TURKEY  
Tel: +90 (312) 326 77 88 (PBX)  
Fax: +90 (312) 326 77 64

**Fatih Branch:**

Fevzipaşa Cad. No: 42 34240 Fatih/  
İSTANBUL/TURKEY  
Tel: +90 (212) 631 32 50 (PBX)  
Fax: +90 (212) 631 32 54

**Findıkzade Branch:**

Millet Cad. No: 86/2-3-4  
Findıkzade/İSTANBUL/TURKEY  
Tel: +90 (212) 523 88 73 (PBX)  
Fax: +90 (212) 523 83 98

**Fatih Sultan Mehmet Bulvarı Branch:**

Fethiye Mah. Fatih Sultan Mehmet Bulvarı  
Bulvar İş Merkezi No: 199/23  
Nilüfer/BURSA/TURKEY  
Tel: +90 (224) 242 02 60 (PBX)  
Fax: +90 (224) 243 02 09

**Gatem-Gaziantep Branch:**

Gatem Topt. Sit.Mavi Ada 3.Blok No: 2  
Şehitkamil/G.ANTEP/TURKEY  
Tel: +90 (342) 238 01 35 (PBX)  
Fax: +90 (342) 238 04 70

**Gaziantep Branch:**

Prof. M. Aksoy Bulvarı Osmanlı İşmerkezi  
GAZİANTEP/TURKEY  
Tel: +90 (342) 215 32 72 (PBX)  
Fax: +90 (342) 215 29 66

**Gazimir (İZMİR) Branch:**

Dokuz Eylül Mh.Akçay Cd. No: 167  
Gazimir/İZMİR/TURKEY  
Tel: +90 (232) 252 24 62 (PBX)  
Fax: +90 (232) 252 14 59

**Gaziosmanpaşa Branch:**

Merkez Mh. Salihpaşa Cd. No: 54  
Gaziosmanpaşa/İSTANBUL/TURKEY  
Tel: +90 (212) 615 51 35 (PBX)  
Fax: +90 (212) 615 52 02

**Gebze Branch:**

Atatürk Cad. No: 15 Gebze/KOCAELİ/TURKEY  
Tel: +90 (262) 643 29 70 (PBX)  
Fax: +90 (262) 643 29 69

**Gebze Çarşısı Branch:**

Hacı Halil Mh.Zübeyde Hanım Cd.İkizhan 1  
No: 1 KOCAELİ/TURKEY  
Tel: +90 (262) 644 40 44 (PBX)  
Fax: +90 (262) 644 31 32



**Giresun Branch:**

Sultanselim Mah. Osmanağa Cad. No: 1  
GİRESUN/TURKEY  
Tel: +90 (454) 202 00 52 (PBX)  
Fax: +90 (454) 202 00 60

**Güllük-Antalya Branch:**

Güllük Cad. Saraçoğlu İşmerkezi No: 78  
ANTALYA/TURKEY  
Tel: +90 (242) 247 43 71 (PBX)  
Fax: +90 (242) 247 94 71

**Gültepe Branch:**

Talatpaşa Cad.No: 122-A  
Gültepe/ISTANBUL/TURKEY  
Tel: +90 (212) 278 73 43 (PBX)  
Fax: +90 (212) 284 73 88

**Güneşli Branch:**

Gülbahar Cad. 6. Sk. No: 66  
Güneşli/ISTANBUL/TURKEY  
Tel: +90 (212) 489 21 51 (PBX)  
Fax: +90 (212) 489 21 50

**Güngören Branch:**

Güven Mh. İnönü Cd. No: 23/1  
Güngören/ISTANBUL/TURKEY  
Tel: +90 (212) 505 96 95 (PBX)  
Fax: +90 (212) 505 51 59

**Hadımköy Branch:**

Sanayi 1 Bulvarı Alkent 2000  
Evleri Karşısı No: 202 Çakmaklı-  
Büyükkçekmece/ISTANBUL/TURKEY  
Tel: +90 (212) 886 28 98 (PBX)  
Fax: +90 (212) 886 28 99

**Hasanpaşa Branch:**

Kurbalıdere Cd. No: 43/A  
Hasanpaşa-Kadıköy/ISTANBUL/TURKEY  
Tel: +90 (216) 345 45 75 (PBX)  
Fax: +90 (216) 345 69 29

**Ihlamurkuyu Branch:**

Alemdağ Cd.No: 283  
Ihlamurkuyu-Ümraniye/ISTANBUL/TURKEY  
Tel: +90 (216) 611 02 11 (PBX)  
Fax: +90 (216) 611 04 41

**Isparta Branch:**

Cumhuriyet Cad. Gürman Pasajı No: 23  
ISPARTA/TURKEY  
Tel: +90 (246) 232 46 27 (PBX)  
Fax: +90 (246) 232 46 78

**İçerenköy Branch:**

Kayışdağı Cad. No: 29  
K.Bakkalköy-Kadıköy/ISTANBUL/TURKEY  
Tel: +90 (216) 574 99 60  
Fax: +90 (216) 574 99 45

**İkitelli Branch:**

Atatürk Bulvarı Altay İş Merkezi No: 115/10  
Başakşehir/ISTANBUL/TURKEY  
Tel: +90 (212) 671 13 33 (PBX)  
Fax: +90 (212) 671 13 31

**İmes Branch:**

İMES San.Sit. 202.S.B Blok No: 2 Ümraniye/  
ISTANBUL/TURKEY  
Tel: +90 (216) 466 48 70 (PBX)  
Fax: +90 (216) 466 48 74

**İmsan-İkitelli Branch:**

İkitelli C. İmsan San. Sit.E Bl. 23-24  
K.Çekmece/ISTANBUL/TURKEY  
Tel: +90 (212) 698 04 58 (PBX)  
Fax: +90 (212) 698 04 38

**İnegöl Branch:**

Nuri Doğrul Cad. No: 20  
İnegöl/BURSA/TURKEY  
Tel: +90 (224) 711 10 77 (PBX)  
Fax: +90 (224) 711 10 74

**İskenderun Branch:**

Savaş Mh.Mareşal Çakmak Cd.  
Akıncı İşhanı HATAY/TURKEY  
Tel: +90 (326) 613 07 57 (PBX)  
Fax: +90 (326) 613 08 67

**İstoç Branch:**

İstoç Topt. Çarşısı 11.Ada No: 1-3  
Mahmutbey/ISTANBUL/TURKEY  
Tel: +90 (212) 659 56 61 (PBX)  
Fax: +90 (212) 659 48 58

**İZMİR Branch:**

Fevzi Paşa Bulvarı No: 61/A  
Çankaya/İZMİR/TURKEY  
Tel: +90 (232) 445 26 92 (PBX)  
Fax: +90 (232) 445 26 96

**Gıda Çarşısı (İZMİR) Branch:**

1202 Sk. No: 81 Gıda Çarşısı  
Yenişehir/İZMİR/TURKEY  
Tel: +90 (232) 449 99 09 (PBX)  
Fax: +90 (232) 469 11 07

**İZMIT Branch:**

Karabaş Mah. Cumhuriyet Cad.  
No: 160/A İZMİR/TURKEY  
Tel: +90 (262) 325 55 33 (PBX)  
Fax: +90 (262) 324 26 17

**Kadıköy Branch:**

Söğütlüçeşme C.Başçavuş Sk. 57/2  
Kadıköy/ISTANBUL/TURKEY  
Tel: +90 (216) 349 77 61 (PBX)  
Fax: +90 (216) 349 77 65

**Kahramanmaraş Branch:**

Trabzon Cad. No: 56/B  
KAHRAMANMARAŞ/TURKEY  
Tel: +90 (344) 225 17 00 (PBX)  
Fax: +90 (344) 225 20 45

**Kapalıçarşı Branch:**

Mahmutpaşa Cad. No: 2/4  
Eminönü/ISTANBUL/TURKEY  
Tel: +90 (212) 514 87 27 (PBX)  
Fax: +90 (212) 514 87 22

**Karabük Branch:**

PTT Cad. No:7 KARABÜK/TURKEY  
Tel: +90 (370) 412 73 74 (PBX)  
Fax: +90 (370) 412 43 21

**Karaköy Branch:**

Necatibey Cad. No: 34  
Karaköy/ISTANBUL/TURKEY  
Tel: +90 (212) 292 02 42  
Fax: +90 (212) 292 02 52

**Karagöz Branch:**

Karagöz Cad. No: 4/A  
Şahinbey/GAZİANTEP/TURKEY  
Tel: +90 (342) 232 99 79 (PBX)  
Fax: +90 (342) 232 99 78

**Kars Branch:**

Yusuflpaşa Mah. Kazım Paşa Cad.  
No: 96 KARS/TURKEY  
Tel: +90 (474) 223 11 21 (PBX)  
Fax: +90 (474) 213 11 17

**Karşıyaka Branch:**

Girne Bulvarı No: 145/A-B  
Karşıyaka/İZMİR/TURKEY  
Tel: +90 (232) 364 70 74 (PBX)  
Fax: +90 (232) 364 71 21

**Kavacık Branch:**

Fatih Sultan Mehmet Cad. Otakçı Çıkmazı  
No: 1 Ak İş Merkezi Kavacık-Beykoz/  
İSTANBUL/TURKEY  
Tel: +90 (216) 331 10 40 (PBX)  
Fax: +90 (216) 331 10 38

**Kayapınar Branch:**

Urfa Yolu 1. Km., Honda Plaza Karşısı  
Elmas Ap. Altı Kayapınar/  
DİYARBAKIR/TURKEY  
Tel: +90 (412) 251 02 52 (PBX)  
Fax: +90 (412) 251 02 28

**Kaynarca Branch:**

Fevzi Çakmak Mh.Cemal Gürsel C. 135/1  
Pendik/İSTANBUL/TURKEY  
Tel: +90 (216) 397 41 41  
Fax: +90 (216) 396 04 00

**Kayseri Branch:**

Millet Cad. Ünlü Ap. No: 39 KAYSERİ/TURKEY  
Tel: +90 (352) 222 12 87 (PBX)  
Fax: +90 (352) 222 55 49

**Keçiören Branch:**

Kızılarpınarı Cad. No: 55/B  
Keçiören/ANKARA/TURKEY  
Tel: +90 (312) 361 99 90 (PBX)  
Fax: +90 (312) 361 99 98

**Kızılay Branch:**

Mithatpaşa Cad. No:31-32  
Kızılay/ANKARA/TURKEY  
Tel: +90 (312) 431 01 73 (PBX)  
Fax: +90 (312) 431 01 85

**Kıztaşı Branch:**

Sofular Mah. Macar Kardeşler Cad. No: 43  
İSTANBUL/TURKEY  
Tel: +90 (212) 523 23 03  
Fax: +90 (212) 523 23 53

**Konya Branch:**

Ankara Cad. No: 119 Selçuklu/KONYA/TURKEY  
Tel: +90 (332) 238 10 10 (PBX)  
Fax: +90 (332) 237 67 34

**Kurtköy Branch:**

Ankara Cd.203/B Efe  
İşmerk.Şişli-Kurtköy/İSTANBUL/TURKEY  
Tel: +90 (216) 595 40 15 (PBX)  
Fax: +90 (216) 595 39 08

**Kütahya Branch:**

Balıkli Mah.Itfaiye Sk. No: 2  
KÜTAHYA/TURKEY  
Tel: +90 (274) 223 44 84  
Fax: +90 (274) 223 60 63

**Laleli Branch:**

Ordu Cad. No: 218-248/D  
Laleli/İSTANBUL/TURKEY  
Tel: +90 (212) 527 49 00 (PBX)  
Fax: +90 (212) 527 48 61-62

**Logistic Center:**

Organize Deri Yan San. Bölgesi YA5 Parsel  
Tuzla/İSTANBUL/TURKEY  
Tel: +90 (216) 591 08 88  
Fax: +90 (216) 591 08 86

**Malatya Branch:**

Ferhadiye Mah. Ferhadiye Sk. No: 3  
MALATYA/TURKEY  
Tel: +90 (422) 323 04 48 (PBX)  
Fax: +90 (422) 323 03 98

**Maltepe Branch:**

Bağdat Cd.No: 418/A  
Maltepe/İSTANBUL/TURKEY  
Tel: +90 (216) 370 19 00 (PBX)  
Fax: +90 (216) 370 24 63

**Manisa Branch:**

Mustafa Kemal Paşa Cad. No: 30/A  
MANİSA/TURKEY  
Tel: +90 (236) 231 54 77 (PBX)  
Fax: +90 (236) 231 37 30

**Mecidiyeköy Branch:**

Büyükdere Cad. No: 77  
Mecidiyeköy/İSTANBUL/TURKEY  
Tel: +90 (212) 266 76 99 (PBX)  
Fax: +90 (212) 266 77 04

**Megacenter (Bayrampaşa) Branch:**

Kocatepe Mh.Megacenter Sit.12. Sk.C Blok  
No: 113 Bayrampaşa/İSTANBUL/TURKEY  
Tel: +90 (212) 640 00 60 (PBX)  
Fax: +90 (212) 640 63 00

**Central Branch:**

Büyükdere Cad. No: 129/1A  
Esentepe-Şişli/İSTANBUL/TURKEY  
Tel: +90 (212) 354 28 28 (PBX)  
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