

**Kuveyt Türk Katılım Bankası  
Anonim Şirketi**

**Interim condensed consolidated  
financial statements together with  
independent auditors' review report  
June 30, 2008**

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**Report on review of interim condensed  
consolidated financial statements to the board of directors of  
Kuveyt Türk Katılım Bankası Anonim Şirketi**

**Introduction**

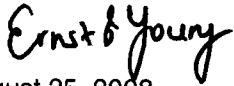
We have reviewed the accompanying interim condensed consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. and its subsidiary ("the Group") as at June 30, 2008 comprising of the interim consolidated balance sheet as at June 30, 2008 and the related interim consolidated statements of income, changes in equity and cash flows for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



August 25, 2008  
İstanbul, Turkey

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

**Interim consolidated balance sheet  
at June 30, 2008  
(Currency - In thousands of New Turkish Lira - YTL)**

	Notes	June 30, 2008 Unaudited	December 31, 2007 Audited
<b>Assets</b>			
Cash and balances with the Central Bank		201,585	155,508
Deposits with banks and other financial institutions		733,839	421,431
Reserve deposits at the Central Bank of Turkey		225,483	191,811
Financial assets - available-for-sale		577	577
Financial assets - held to maturity		6,137	5,852
Financial assets held for trading		95	133
Due from financing activities, net	4	3,325,602	2,747,645
Minimum financial lease payment receivable, net	5	139,385	160,940
Derivative financial instruments		2,831	3,978
Other assets		53,722	23,719
Construction projects, net		3,011	3,140
Investment properties, net		61,228	59,389
Property and equipment, net	6	79,509	69,742
Intangible assets, net		1,814	1,591
Deferred tax assets	9	7,183	7,886
		<b>4,842,001</b>	<b>3,853,342</b>
Non-current assets held for sale or a disposal group held for sale	7	2,245	6,673
<b>Total assets</b>		<b>4,844,246</b>	<b>3,860,015</b>
<b>Liabilities and shareholders' equity</b>			
Due to other financial institutions and banks		621,638	433,318
Current accounts and profit / loss sharing investors' accounts	8	3,529,391	2,969,670
Other liabilities		35,962	34,372
Provisions		3,527	3,226
Derivative financial instruments		3,583	6,647
Income taxes payable	9	10,454	7,816
		<b>4,204,555</b>	<b>3,455,049</b>
Liabilities directly associated with assets classified as held for sale		-	544
<b>Total liabilities</b>		<b>4,204,555</b>	<b>3,455,593</b>
<b>Shareholders' equity :</b>			
Share capital	10	500,000	260,000
Share issue premium	10	23,250	23,250
Legal reserves and retained earnings		116,441	121,172
<b>Total shareholders' equity</b>		<b>639,691</b>	<b>404,422</b>
<b>Total liabilities and shareholders' equity</b>		<b>4,844,246</b>	<b>3,860,015</b>

The policies and explanatory notes on pages 6 through 21 form an integral part of the interim condensed consolidated financial statements

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

**Interim consolidated income statement  
for the six month period ended June 30, 2008  
(Currency - In thousands of New Turkish Lira - YTL)**

	Notes	June 30, 2008 Unaudited	June 30, 2007 Unaudited
<b>Continuing operations</b>			
<b>Income from financing activities:</b>			
Profit/loss sharing accounts		149,934	101,514
Current accounts and equity		43,578	45,211
Profit on deposits with other banks and financial institutions		14,601	11,015
Profit on financial leases		8,345	7,187
<b>Total income from financing activities</b>		<b>216,458</b>	<b>164,927</b>
Profit shares distributed to participation accounts		(131,227)	(80,695)
Profit shares distributed to banks and financial institutions		(13,156)	(15,011)
<b>Net financing income</b>		<b>72,075</b>	<b>69,221</b>
Provision for impairment in due from financing activities and lease receivables, net	4,5	(29,044)	(8,615)
<b>Net financing income after reserve for impairment in due from financing activities and lease receivables</b>		<b>43,031</b>	<b>60,606</b>
Foreign exchange gain, net		12,851	4,854
<b>Net financing income after net foreign exchange gain</b>		<b>55,882</b>	<b>65,460</b>
Fee and commission income		66,882	49,953
Income from construction projects, net		46	291
Net trading income/(expense)		22,541	(6,331)
Other income		10,700	2,790
<b>Total other operating income</b>		<b>100,169</b>	<b>46,703</b>
Fees and commission expense		(11,535)	(7,770)
Staff costs		(51,296)	(35,113)
Depreciation and amortization expense		(7,699)	(5,351)
Withholdings and other taxes		(2,300)	(2,079)
Rent expense		(6,483)	(4,787)
Other expenses		(23,613)	(18,525)
<b>Total other operating expense</b>		<b>(102,926)</b>	<b>(73,625)</b>
<b>Profit before income tax</b>		<b>53,125</b>	<b>38,538</b>
Current tax charge	9	(10,454)	-
Deferred tax (charge) / credit	9	(703)	(520)
<b>Net income for the period from continuing operations</b>		<b>41,968</b>	<b>38,018</b>
<b>Net income after tax for the period from a discontinued operation</b>		<b>291</b>	<b>(848)</b>
<b>Net income for the period</b>		<b>42,259</b>	<b>37,170</b>
Earnings per share for net income attributable to the ordinary equity holders of the Group during the period (in full YTL per share)	12	0.126	0.165
Earnings per share for net income attributable to the ordinary equity holders of the Group during the period (in full YTL per share) from continuing operations	12	0.126	0.169

The policies and explanatory notes on pages 6 through 21 form an integral part of the interim condensed consolidated financial statements.

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

**Interim consolidated statement of changes in equity  
for the six month period ended June 30, 2008  
(Currency - in thousands of New Turkish Lira - YTL)**

	Notes	Share capital	Share issue premium	Legal reserves	Retained earnings	Total
Balances at January1, 2007		200,188	-	6,095	63,840	270,123
Share capital increase		59,812	-	-	(13,312)	46,500
Transfer from retained earnings to legal reserves		-	-	1,811	(1,811)	-
Dividends paid		-	-	-	(2,529)	(2,529)
Share issue premium		-	23,250	-	-	23,250
Net income for the period		-	-	-	37,170	37,170
<b>Balances, at June 30, 2007, unaudited</b>		<b>260,000</b>	<b>23,250</b>	<b>7,906</b>	<b>83,358</b>	<b>374,514</b>
<b>Balances at January1, 2008</b>		<b>260,000</b>	<b>23,250</b>	<b>7,906</b>	<b>113,266</b>	<b>404,422</b>
Share capital increase						
cash	10	200,000	-	-	-	200,000
from reserves	10	40,000	-	-	(40,000)	-
Transfer from retained earnings to legal reserves		-	-	4,407	(4,407)	-
Dividends paid	11	-	-	-	(6,990)	(6,990)
Share issue premium		-	-	-	-	-
Net income for the period		-	-	-	42,259	42,259
Total income and expense for the period		-	-	-	42,259	42,259
<b>Balances, at June 30, 2008, unaudited</b>		<b>500,000</b>	<b>23,250</b>	<b>12,313</b>	<b>104,128</b>	<b>639,691</b>

The policies and explanatory notes on pages 6 through 21 form an integral part of the consolidated financial statements.

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

**Interim consolidated cash flow statement  
for the six month period ended June 30, 2008  
(Currency - In thousands of New Turkish Lira - YTL)**

	Notes	June 30, 2008 Unaudited	June 30, 2007 Unaudited
<b>Cash flows from operating activities:</b>			
Net profit before income tax from continuing operations		53,125	38,538
Net profit from discontinued operations		291	(848)
Adjustments to reconcile net income to net cash used in operating activities:			
Gain/(loss) on sale of investment security		-	(154)
Gain/(loss) on sale of property and equipment, intangible assets and investment properties		1,990	(787)
Depreciation and amortization		7,699	5,747
Reserve for employee termination benefits		561	775
Reserve for impairment in due from financing activities	4,5	29,044	8,615
Expense accrual of participation accounts	8	6,910	2,184
Reserve for/(reversal of) impairment in construction projects, property and equipment and investment property		769	988
Income accrual of funds invested and reserve deposit		(48,545)	15,310
Expense accrual of funds borrowed		969	8,824
Net change in derivative financial instruments		(1,917)	8,195
Income taxes paid		(7,816)	-
Gain on disposal of discontinued operation	7	(691)	-
<b>Operating profit before changes in operating assets and liabilities</b>		<b>42,389</b>	<b>87,387</b>
<b>Net changes in :</b>			
Reserve deposits at the Central Bank of Turkey		(33,211)	(21,991)
Due from financing activities		(558,917)	(371,859)
Minimum financial lease payment receivables		21,555	3,448
Other assets and construction projects		(30,643)	(1,082)
Current accounts and profit/loss sharing investors' accounts		555,698	139,161
Other liabilities		1,590	(2,459)
Payment for employee termination benefits		(260)	(392)
<b>Net cash used in operating activities</b>		<b>(1,799)</b>	<b>(167,787)</b>
<b>Cash flows from investing activities:</b>			
(Increase) / decrease in available-for-sale, held-to-maturity and held-for-trading securities		(247)	(5,824)
Purchase of property and equipment, intangible assets and investment properties		(22,473)	(9,122)
Proceeds from sale of property and equipment, intangible assets and investment properties		955	1,749
Proceeds from sale of a subsidiary, net of cash disposed	7	1,688	-
<b>Net cash provided by / (used in) investing activities</b>		<b>(20,077)</b>	<b>(13,197)</b>
<b>Cash flows from financing activities:</b>			
Increase in share capital	10	200,000	46,500
Share issue premium		-	23,250
Dividends paid	11	(6,990)	(2,528)
Increase in due to financial institutions and banks		187,351	287,902
<b>Net cash provided by financing activities</b>		<b>380,361</b>	<b>355,124</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>358,485</b>	<b>174,140</b>
Cash and cash equivalents at the beginning of the period		576,939	385,149
<b>Cash and cash equivalents at the end of the period</b>		<b>935,424</b>	<b>559,289</b>
Profit share received		168,374	180,237
Profit share paid		151,644	93,521

The policies and explanatory notes on pages 6 through 21 form an integral part of the interim condensed consolidated financial statements.

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

## **Selected notes to interim condensed consolidated financial statements June 30, 2008 (Currency - In thousands of New Turkish Lira - YTL)**

### **1. Corporate information**

#### **General**

Kuveyt Türk Katılım Bankası 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 parent of the Institution is Kuwait Finance House.

The interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on August 25, 2008. 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 June 30, 2008, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 100% shareholding was incorporated in June 1996 according to the Turkish Commercial Code. Körfez's head office is registered in Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey, including Güre Project, which comprises the construction of 199 "time-sharing" houses in Edremit-Balıkesir. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried for third parties.

### **2. Basis of presentation and accounting policies**

#### **2.1 Basis of preparation**

The interim condensed consolidated financial statements of the Bank and its subsidiary (collectively – the Group) have been prepared in accordance with International Accounting Standards (IAS) 34 "Interim financial reporting"

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2007.



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

### **Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - In thousands of New Turkish Lira - YTL)**

#### **2. Basis of presentation and accounting policies (continued)**

##### **2.2 Significant accounting policies**

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 and but are not relevant for the group.

- IFRIC 12, "Service Concession Arrangements".
- IFRIC 14, "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

#### **Standards, Interpretations and amendments to published standards that are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after January 1, 2009, but which the Group has not early adopted, as follows:

- IFRIC 15, "Agreements for the Construction of Real Estate", was issued on 3 July, 2008 and is effective for annual periods beginning on or after 1 January 2009 and must be applied retrospectively. IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognised. The Group / Company is in the process of assessing the impact of this interpretation on its financial statements
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation", was issued on 3 July, 2008 and is effective for annual periods beginning on or after 1 October, 2008 and can be applied retrospectively or prospectively. IFRIC 16 clarifies three main issues, namely:
  1. A presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.
  2. Hedging instrument(s) may be held by any entity or entities within the group.
  3. While IAS 39, 'Financial Instruments: Recognition and Measurement', must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 'The Effects of Changes in Foreign Exchange Rates' must be applied in respect of the hedged item.

This interpretation will have no impact on the Group's financial statements.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiary

### Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - in thousands of New Turkish Lira - YTL)

#### 2. Basis of presentation and accounting policies (continued)

##### 2.3 Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain / (loss). Foreign currency exchange rates used by the Group as of respective period-ends are as follows :

Dates	USD / YTL	EUR / YTL
June 30, 2007	1.3147	1.7696
December 31, 2007	1.1647	1.7102
June 30, 2008	1.2237	1.9271

#### 3. Segment information

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the six months period ended June 30, 2008 and 2007, respectively.

For the six month period ended June 30, 2008	Retail banking	Corporate and commercial banking	International and investment banking and treasury	Other	Unallocated	Total
Income from financing activities	71,689	130,028	14,741	-	-	216,458
Profit shares distributed	(89,324)	(38,471)	(16,510)	(78)	-	(144,383)
Net fees and commission income	24,107	34,986	(3,746)	-	-	55,347
Other income	4,038	13,491	22,079	-	6,530	46,138
<b>Total operating income</b>	<b>10,510</b>	<b>140,034</b>	<b>16,564</b>	<b>(78)</b>	<b>6,530</b>	<b>173,560</b>
Provision for impairment in due from financing activities and lease receivables	(11,157)	(17,887)	-	-	-	(29,044)
<b>Net operating income</b>	<b>(647)</b>	<b>122,147</b>	<b>16,564</b>	<b>(78)</b>	<b>6,530</b>	<b>144,516</b>
Operating expenses, net	(3,631)	-	-	(3,004)	(84,756)	(91,391)
<b>Income before taxation</b>	<b>(4,278)</b>	<b>122,147</b>	<b>16,564</b>	<b>(3,082)</b>	<b>(78,226)</b>	<b>53,125</b>
Tax charge	-	-	-	-	(11,157)	(11,157)
<b>Net income for the year from continuing operations</b>	<b>(4,278)</b>	<b>122,147</b>	<b>16,564</b>	<b>(3,082)</b>	<b>(89,383)</b>	<b>41,968</b>
<b>Net income for the year from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>291</b>	<b>-</b>	<b>291</b>
<b>Net income for the year</b>	<b>(4,278)</b>	<b>122,147</b>	<b>16,564</b>	<b>(2,791)</b>	<b>(89,383)</b>	<b>42,259</b>

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)**  
(Currency - In thousands of New Turkish Lira - YTL)

**3. Segment information (continued)**

<b>Asset and liabilities as of June 30, 2008</b>	<b>Retail banking</b>	<b>Corporate and commercial banking</b>	<b>International and investment banking and treasury</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Due from financing activities and financial lease payments receivable, net	1,147,286	2,317,701	-	-	-	3,464,987
Financial assets – available for sale	-	-	577	-	-	577
Financial assets – held for trading	-	-	95	-	-	95
Financial assets – held to maturity	-	-	6,137	-	-	6,137
Other	-	286,849	918,312	41,667	125,622	1,372,450
<b>Total assets</b>	<b>1,147,286</b>	<b>2,604,550</b>	<b>925,121</b>	<b>41,667</b>	<b>125,622</b>	<b>4,844,246</b>
Due to other financial institutions and Banks	-	-	621,638	-	-	621,638
Current and profit / loss sharing investors' accounts	2,393,036	1,038,025	34,089	-	64,241	3,529,391
Other	-	367	3,583	16,206	33,370	53,526
<b>Total liabilities</b>	<b>2,393,036</b>	<b>1,038,392</b>	<b>659,310</b>	<b>16,206</b>	<b>97,611</b>	<b>4,204,555</b>
Capital Expenditures	-	-	-	-	22,473	22,473
Depreciation and Amortization	-	-	-	-	7,699	7,699
<b>For the six month period ended June 30, 2007</b>	<b>Retail banking</b>	<b>Corporate and commercial banking</b>	<b>International and investment banking and treasury</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Income from financing activities	50,254	103,658	11,015	-	-	164,927
Profit shares distributed	(58,788)	(21,742)	(15,011)	(165)	-	(95,706)
Net fees and commission income	21,251	22,543	(1,611)	-	-	42,183
Other income	979	2,838	(6,331)	-	4,118	1,604
<b>Total operating income</b>	<b>13,696</b>	<b>107,297</b>	<b>(11,938)</b>	<b>(165)</b>	<b>4,118</b>	<b>113,008</b>
Provision for impairment in due from financing activities and lease receivables	(3,363)	(5,252)	-	-	-	(8,615)
<b>Net operating income</b>	<b>10,333</b>	<b>102,045</b>	<b>(11,938)</b>	<b>(165)</b>	<b>4,118</b>	<b>104,393</b>
Operating expenses, net	(2,898)	-	-	(2,775)	(60,182)	(65,855)
<b>Income before taxation</b>	<b>7,435</b>	<b>102,045</b>	<b>(11,938)</b>	<b>(2,940)</b>	<b>(56,064)</b>	<b>38,538</b>
Tax charge	-	-	-	-	(520)	(520)
<b>Net income for the year from continuing operations</b>	<b>7,435</b>	<b>102,045</b>	<b>(11,938)</b>	<b>(2,940)</b>	<b>(56,584)</b>	<b>38,018</b>
<b>Net income for the year from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(848)</b>	<b>-</b>	<b>(848)</b>
<b>Net income for the year</b>	<b>7,435</b>	<b>102,045</b>	<b>(11,938)</b>	<b>(3,788)</b>	<b>(56,584)</b>	<b>37,170</b>

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)**  
(Currency - In thousands of New Turkish Lira - YTL)

**3. Segment information (continued)**

Asset and liabilities as of December 31, 2007	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Due from financing activities and financial lease payments receivable, net	933,450	1,975,135	-	-	-	2,908,585
Financial assets – available for sale	-	-	577	-	-	577
Financial assets – held for trading	-	-	133	-	-	133
Financial assets – held to maturity	-	-	5,852	-	-	5,852
Other	-	34,337	787,376	25,214	97,941	944,868
<b>Total assets</b>	<b>933,450</b>	<b>2,009,472</b>	<b>793,938</b>	<b>25,214</b>	<b>97,941</b>	<b>3,860,015</b>
Due to other financial institutions and Banks	-	-	433,318	-	-	433,318
Current and profit / loss sharing investors' accounts	1,920,819	933,399	74,091	-	41,361	2,969,670
Other	-	702	6,647	13,689	31,567	52,605
<b>Total liabilities</b>	<b>1,920,819</b>	<b>934,101</b>	<b>514,056</b>	<b>13,689</b>	<b>72,928</b>	<b>3,455,593</b>
Capital Expenditures	-	-	-	-	45,961	45,961
Depreciation and Amortization	-	-	-	-	11,923	11,923

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

As of June 30, 2008 the Bank took possession of collateral (lands and buildings) from customers amounting to YTL 3,379 (December 31, 2007 - YTL 3,050), 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.

	June 30, 2008	December 31, 2007
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	1,855,936	1,381,741
Funds invested from current accounts and equity	1,314,861	1,285,189
Income accruals on due from financing activities	89,144	41,061
	<b>3,259,941</b>	<b>2,707,991</b>
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	90,701	54,194
Funds invested from current accounts and equity	75,171	67,569
	<b>165,872</b>	<b>121,763</b>
<b>Total</b>	<b>3,425,813</b>	<b>2,829,754</b>
<b>Impairment allowance</b>		
Funds invested from current accounts and equity	(48,402)	(34,377)
Funds invested from profit / loss sharing accounts	(51,809)	(47,732)
	<b>(100,211)</b>	<b>(82,109)</b>
<b>Total due from financing activities</b>	<b>3,325,602</b>	<b>2,747,645</b>

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)  
(Currency - In thousands of New Turkish Lira - YTL)**

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

Movement in impairment allowance for funds disbursed is as follows :

	June 30, 2007	June 30, 2007
Balance at 1 January	82,109	80,650
Provisions – bank	28,778	8,567
Provisions - participation accounts	6,430	4,727
Recoveries of amounts previously provided for	(5,653)	(5,487)
Reserves written off in current period	(11,453)	-
<b>Balance at the end of period</b>	<b>100,211</b>	<b>88,457</b>

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is YTL 2,398 (December 31, 2007 – YTL 5,248) and this amount is included in other income.

The impairment allowance of YTL 100,211 (December 31, 2007 – 82,109) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

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

	June 30, 2007	June 30, 2007
Balance at beginning of period	12,728	9,001
Provisions - bank	2,111	1,578
Provisions - participation accounts	3,070	940
<b>Allowance at the end of the period</b>	<b>17,909</b>	<b>11,519</b>

**5. Minimum financial lease payment receivable, net**

	June 30, 2008	December 31, 2007
Gross investment in finance leases	141,660	172,934
Unearned finance income	(16,754)	(22,593)
Total impaired receivables	19,255	14,173
Impairment allowance	(4,776)	(3,574)
<b>Minimum lease payment receivable, net</b>	<b>139,385</b>	<b>160,940</b>

	June 30, 2008	June 30, 2007
<b>Movements in the impairment allowance</b>		
Balance at 1 January	3,574	7,180
Provisions – Bank	266	48
Provisions - participation accounts	1,309	539
Recoveries of amounts previously provided for	(28)	(978)
Reserves written off in current year	(345)	-
<b>Balance at the end of the period</b>	<b>4,776</b>	<b>6,789</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiary

### Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - In thousands of New Turkish Lira - YTL)

#### 5. Minimum financial lease payment receivable, net (continued)

Gross investment in finance leases as to their maturity :

	June 30, 2008	December 31, 2007
Not later than 1 year (*)	96,946	109,440
Later than 1 year and not later than 5 years	63,580	77,434
Later than 5 years	389	233
<b>Minimum lease payment receivables, gross</b>	<b>160,915</b>	<b>187,107</b>
<b>Less : Unearned finance income</b>	<b>(16,754)</b>	<b>(22,593)</b>
Net investment in finance leases	144,161	164,514
Less : Reserve for impairment	(4,776)	(3,574)
<b>Minimum lease payments receivables, net</b>	<b>139,385</b>	<b>160,940</b>

(\*) Includes total impaired receivables amounting to YTL 19,255 (December 31, 2007 – 14,173 YTL).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of up to 2 years.

#### 6. Property and equipment

##### Acquisitions and disposals

During the six months ended 30 June, 2008, the Group acquired assets with a cost of YTL 20,368 (December 31, 2007 YTL – 25,475).

Assets with a net book value of YTL 394 were disposed of by the Group during six months ended 30 June 2008 (December 31, 2007 - YTL 784), resulting in a net loss on disposal YTL 135 (December 31, 2007 - YTL 212).

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)**  
(Currency - In thousands of New Turkish Lira - YTL)

**7. Non-current assets or a disposal group held for sale**

In 2007, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in prior periods amounting to YTL 3,236, 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:

	<b>January 1- June 30, 2008</b>	January 1 – June 30, 2007
Balance at the beginning of the period	<b>2,508</b>	-
Additions	-	-
Transfer from investment property	-	-
Disposal	<b>(263)</b>	-
<b>Balance at the end of the period</b>	<b>2,245</b>	-

Gain on sale of non-current assets held for sale amounting to YTL 506 is included in other income in the income statement.

The Bank has disposed 65% of its shares in Auto Land to Baytik Capital Holding B.S.C in return for 1,147 YTL and 35% of its shares to A'ayan Leasing and Investment Company in return for 618 YTL with respect to sale agreement dated February 28, 2008. As at December 31, 2007, Auto Land was classified as a disposal group held for sale. Accordingly, in the consolidated financial statements as of December 31, 2007 Auto Land was included in the discontinued operations.

The results of Auto Land included in Group's financial statements until its disposal in February 28, 2008 are presented below:

	<b>June 30, 2008</b>	June 30, 2007
Foreign exchange gain/(loss), net	<b>(36)</b>	121
Other income	<b>13</b>	382
Staff costs	<b>(98)</b>	(347)
Depreciation and amortization expense	<b>(151)</b>	(396)
Other expense	<b>(20)</b>	(266)
Effects of consolidation	<b>(108)</b>	(342)
<b>Profit/(loss) for the period from discontinued operation</b>	<b>(400)</b>	(848)
Gain on disposal of the discontinued operation	<b>691</b>	-
Attributable tax expense	-	-
<b>Gain/(loss) after tax for the period from discontinued operation</b>	<b>291</b>	(848)

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

**Selected notes to interim condensed consolidated  
financial statements June 30, 2008 (continued)  
(Currency - In thousands of New Turkish Lira - YTL)**

**7. Non-current assets or a disposal group held for sale (continued)**

Cash inflow on sale is as follows:

	June 30, 2008	June 30, 2007
Consideration received	1,765	-
Net cash disposal of with the subsidiary	(77)	-
<b>Net cash inflow</b>	<b>1,688</b>	<b>-</b>

The net cash flows incurred by Auto Land are as follows:

	June 30, 2008	June 30, 2007
Operating	(131)	(490)
<b>Net cash outflow</b>	<b>(131)</b>	<b>(490)</b>

**8. Current and profit loss sharing investors' accounts**

	June 30, 2008	December 31, 2007
Current accounts:		
New Turkish lira	374,699	346,929
Foreign currency	386,855	321,761
	<b>761,554</b>	<b>668,690</b>
Profit/loss sharing investors' accounts:		
New Turkish lira	1,272,827	1,000,400
Foreign currency	1,446,823	1,265,568
	<b>2,719,650</b>	<b>2,265,968</b>
Blocked accounts:		
New Turkish lira	27,849	20,044
Foreign currency	460	1,651
	<b>28,309</b>	<b>21,695</b>
<b>Total current accounts and profit/loss investors' accounts</b>	<b>3,509,513</b>	<b>2,956,353</b>
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>19,878</b>	<b>13,317</b>
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>3,529,391</b>	<b>2,969,670</b>



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

### **Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - In thousands of New Turkish Lira - YTL)**

#### **9. 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 year ending December 31, 2007 and 2006 was 20%, unless qualifying capital investments are made in which case the tax rate is 30% for 2007 and 2006. 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.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from January 1, 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to December 31, 2005 will be able to deduct such amounts from corporate income tax base until the end of December 31, 2008; however, the corporate tax rate will be 30% for them. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 will be subject to investment incentives until the end of December 31, 2008. In 2006 and 2007, the Bank utilized its investment incentive allowance; whereas for 2008 the Bank has decided not to utilize its investment incentive allowances, therefore in 2008 the corporate tax rate for the Bank is 20%.

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 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 (2003 - 2007), as the amount, if any, cannot be estimated with any degree of certainty.

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

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)**  
(Currency - In thousands of New Turkish Lira - YTL)

**9. Income taxes (continued)**

	June 30, 2008	June 30, 2007
Current tax expense	10,454	-
Deferred tax charge	703	520
<b>Total income tax benefit</b>	<b>11,157</b>	<b>520</b>

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the periods June 30 2008 and 2007 are as follows :

	June 30, 2008	June 30, 2007
Profit before income tax from continuing operations	53,125	38,538
Income/(Loss) before tax from a discontinued operation	291	(848)
<b>Net profit before income tax</b>	<b>53,416</b>	<b>37,690</b>
At Turkish statutory income tax rate of 20% (June 30,2007 – 30%)	10,683	11,307
Effect of change in tax rate	-	1,195
Effect of income not subject to tax	(1,745)	(9,625)
Effect of expenditure not allowable for income tax purposes	2,282	930
Effect of investment incentive	-	(3,402)
Effect of restatement pursuant to IAS 29 and others	(63)	115
<b>Income tax charge</b>	<b>11,157</b>	<b>520</b>

Deferred income tax as of June 30, 2008 and December 31, 2007 are attributable to the following items :

	<b>Deferred tax assets/(liabilities)</b>	
	June 30, 2008	December 31 2007
Provision for impairment in due from financing activities	3,100	1,463
Derivative accrual	151	534
Accounting for finance leases	-	502
Provision for impairment in subsidiaries	2,348	3,028
Reserve for employment termination benefits	688	638
Effect of other temporary differences	333	412
Deferred income	2,102	1,425
Bonus accrual of personnel	823	2,204
<b>Deferred tax assets</b>	<b>9,545</b>	<b>10,206</b>
Restatement of property and equipment, intangible assets and other non-monetary items	2,171	2,280
Effect of other temporary differences	43	40
Accounting for finance leases	148	-
<b>Deferred tax liabilities</b>	<b>2,362</b>	<b>2,320</b>
<b>Deferred tax asset – net</b>	<b>7,183</b>	<b>7,886</b>

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)**  
(Currency - In thousands of New Turkish Lira - YTL)

**9. Income taxes (continued)**

Movement of net deferred tax (liability) / asset is:

	<b>June 30, 2008</b>	June 30, 2007
Balance at the beginning of the year	<b>7,886</b>	18,909
Deferred income tax recognized in income statement	<b>(703)</b>	(520)
<b>Balance at the end of the period</b>	<b>7,183</b>	18,389

**10. Share capital**

	<b>June 30, 2008</b>	December 31, 2007
<b>Number of common shares, 1 YTL, par value. Authorized, issued and outstanding.</b>	<b>500.00 million</b>	260.00 million

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

	<b>June 30, 2008</b>		June 30, 2007	
	Number	YTL	Number	YTL
At January 1	<b>260,000,000</b>	<b>260,000</b>	200,188,000	200,188
Shares issued in				
- bonus shares from retained earnings	<b>40,000,000</b>	<b>40,000</b>	13,312,000	13,312
- cash	<b>200,000,000</b>	<b>200,000</b>	46,500,000	46,500
<b>At period/year end</b>	<b>500,000,000</b>	<b>500,000</b>	260,000,000	260,000

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

As of June 30, 2008 and December 31, 2007, the composition of shareholders and their respective % of ownership can be summarized as follows :

	<b>June 30, 2008</b>		December 31, 2007	
	Amount	%	Amount	%
Kuwait Finance House	<b>311,173</b>	<b>62.2</b>	161,810	62.2
Directorate of Foundations, Turkey	<b>93,596</b>	<b>18.7</b>	48,670	18.7
The Public Institution for Social Security, Kuwait	<b>45,000</b>	<b>9.0</b>	23,400	9.0
Islamic Development Bank	<b>45,000</b>	<b>9.0</b>	23,400	9.0
Other	<b>5,231</b>	<b>1.1</b>	2,720	1.1
Historical amount	<b>500,000</b>	<b>100.00</b>	260,000	100.00
Adjustment to share capital	-		-	
<b>Total share capital</b>	<b>500,000</b>		260,000	

The bank has increased its share capital at May 30, 2008. The share capital increase was funded from the retained earnings amounting to YTL 40,000 and by the cash payment of shareholders amounting to YTL 200,000.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiary

### Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - In thousands of New Turkish Lira - YTL)

#### 11. Dividends paid and proposed

##### Dividends paid and proposed

During the current period, the Bank has paid a dividend of YTL 6,990 (2007 - YTL 2,528).

	June 30, 2008	December 31, 2007
<b>Ordinary shares</b>		
Amount	6,990	2,529
YTL (full) per share	0.027	0.012

#### 12. Earnings per share

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

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

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

	June 30, 2008	June 30, 2007
Net profit attributable to continuing operations of the Bank for basic earnings per share	41,968	38,018
Net loss attributable to discontinued operations for basic earnings per share	291	(848)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	42,259	37,170
Weighted average number of ordinary shares for basic earnings per share (thousands)	334,254	225,125
Basic earnings per share (expressed in full YTL per share)	0.126	0.165

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiary

### Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - In thousands of New Turkish Lira - YTL)

#### 13. Commitments and contingencies

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

- a) The following is a brief summary of significant contingencies and commitments as of June 30, 2008 and December 31, 2007 :

	June 30, 2008	December 31, 2007
Letters of guarantee issued by the Bank	2,060,669	1,451,541
Letters of credits	360,505	305,154
Commitments	474,576	346,571
Acceptance credits	21,331	9,283
Other guarantees	4,485	3,805
<b>Total</b>	<b>2,921,566</b>	<b>2,116,354</b>

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

Future minimum rental payables under operating leases are as follows :

	June 30, 2008	December 31, 2007
Within one year	12,326	9,761
After one year but not more than five years	27,455	21,172
More than five years	406	51
	<b>40,187</b>	<b>30,984</b>

The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2003 - 2007), as the amount, if any, cannot be estimated with any degree of certainty.

#### Fiduciary Activities

Other than checks and notes received for collections in favor of the customers, the Group does not have any fiduciary assets and those are not included in the accompanying financial statements. As of June 30, 2008, the amounts of such checks and notes are YTL 893,966 (December 31, 2007 – YTL 680,124) and YTL 152,883 (December 31, 2007 - YTL 137,567), respectively.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiary

### Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued) (Currency - In thousands of New Turkish Lira - YTL)

#### 14. Related party disclosures

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

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2008 and December 31, 2007 and also transactions which have been entered into with related parties during the six months period ended June 30, 2008 and 2007.

#### i) Due from financial institutions :

		June 30, 2008		December 31, 2007	
		Foreign currency (full)	YTL equivalent	Foreign currency (full)	YTL equivalent
Kuwait Finance House (1)	Kuwait Dinar	756	40	748	82
	US\$	30,529,603	37,278	579,360	653
	EUR	6,255	10	-	-
	BHD	44,917	146	44,411	137
			<b>37,474</b>		<b>872</b>

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

		June 30, 2008		December 31, 2007	
		Foreign currency (full)	YTL equivalent	Foreign currency (full)	YTL equivalent
Kuwait Finance House, Bahrain (1)	US\$	44,409,750	52,135	41,204,913	45,283
	EUR	3,069,645	5,878	3,119,549	5,357
Kuwait Finance House, Bahrain (*)	US\$	13,453,142	16,659	13,452,282	14,854
Other	US\$	-	-	-	-
			<b>74,672</b>		<b>65,494</b>

(\*) The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House.

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

**Selected notes to interim condensed consolidated financial statements June 30, 2008 (continued)**  
(Currency - In thousands of New Turkish Lira - YTL)

**14. Related party disclosures (continued)**

**iii) Profit/loss sharing investors' accounts :**

		June 30, 2008		December 31, 2007	
		Foreign currency (full)	YTL equivalent	Foreign currency (full)	YTL equivalent
Kuwait Finance House (1)	EUR	-	-	-	-
Kuwait Finance House (1)	US\$	1,126,201	1,375	1,041,470	1,215
Kuwait Finance House (1)	YTL	-	1	-	128
Islamic Development Bank (1)	US\$	5,146	6	21,465	26
Islamic Development Bank (1)	YTL	-	-	-	-
Directorate of Foundations, Turkey (1)	YTL	-	3	-	2
			<b>1,385</b>		<b>1,371</b>

**iv) Profit shares distributed :**

		June 30, 2008		June 30, 2007	
		Foreign currency (full)	YTL Equivalent	Foreign currency (full)	YTL Equivalent
Kuwait Finance House (1)	US\$	23,643	29	3,747	5
Directorate of Vakıf Foundations, Turkey (1)	YTL	-	1	-	192
			<b>30</b>		<b>197</b>

**v) Non cash credits issued :**

		June 30, 2008		December 31, 2007	
		Foreign currency (full)	YTL equivalent	Foreign currency (full)	YTL equivalent
Kuwait Finance House (1)	US\$	2,808,919	3,437	1,145,359	1,334
Other	YTL	-	-	-	-
			<b>3,437</b>		<b>1,334</b>

(1) Shareholders

**Directors' remuneration**

The executive members of the Board of Directors and key management of the Bank received remuneration totaling YTL 3,631 during the six month period ended June 30, 2008 (As of June 30, 2007 - YTL 2,933). As of June 30, 2008 the key management personnel did not receive any termination benefits (As of June 30, 2007 - YTL 263).

**15. Subsequent events**

- In the Board of Directors meeting dated July 15, 2008 the Bank has decided to establish an investment Company, which will be operated in Turkey.
- In the Board of Directors meeting dated July 15, 2008 the Bank has also decided to establish a subsidiary in Dubai International Finance Center.