

Kuveyt Türk Katılım Bankası Anonim Şirketi

**Interim condensed consolidated financial
statements together with independent auditors'
review report June 30, 2010**

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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

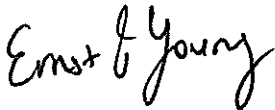
We have reviewed the accompanying interim condensed consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2010 comprising of the interim consolidated statement of financial position as at June 30, 2010 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six months 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 Standard 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.



September 3, 2010
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of financial position at June 30, 2010 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2010 Unaudited	December 31, 2009 Audited
Assets			
Cash and balances with the Central Bank	3	273,534	239,090
Deposits with banks and other financial institutions	3	537,337	903,319
Reserve deposits at the Central Bank of Turkey		242,014	218,689
Financial assets held for trading		27	27
Financial assets - available-for-sale		4,520	4,520
Financial assets - held to maturity		-	7,529
Due from financing activities, net	4	5,658,333	4,586,786
Minimum financial lease payment receivable, net	5	69,521	53,512
Derivative financial instruments		13,977	9,925
Precious Metals		420,056	409,854
Other assets	8	172,058	180,367
Construction projects, net		3,361	3,025
Investment in associate		-	12,315
Investment properties, net		80,113	47,207
Property and equipment, net	6	126,916	108,180
Intangible assets, net		8,800	8,256
Deferred tax assets	10	13,041	12,749
		7,623,608	6,805,350
Non-current assets held for sale or a disposal group held for sale		11,488	9,547
Total assets		7,635,096	6,814,897
Liabilities and shareholders' equity			
Due to other financial institutions and banks		430,645	383,681
Current accounts and profit / loss sharing investors' accounts	9	6,066,082	5,545,201
Other liabilities		199,291	49,422
Provisions		5,614	7,107
Derivative financial instruments		7,985	6,231
Income taxes payable	10	17,891	5,774
Total liabilities		6,727,508	5,997,416
Shareholders' equity :			
Share capital	11	550,000	500,000
Share issue premium		23,250	23,250
Legal reserves and retained earnings		334,338	294,231
Total shareholders' equity		907,588	817,481
Total liabilities and shareholders' equity		7,635,096	6,814,897

The policies and explanatory notes on pages 6 through 20 form an integral part of the interim condensed consolidated financial statements

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of comprehensive income for the six months period ended June 30, 2010 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Continuing operations			
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		146,022	218,604
Profit on originated loans from current accounts and equity		141,443	70,032
Profit on deposits with other banks and financial institutions		10,048	22,116
Profit on finance leases		2,433	4,239
Total income from financing activities		299,946	314,991
Profit shares distributed to participation accounts		(122,537)	(177,777)
Profit shares distributed to banks and financial institutions		(5,769)	(12,337)
Net financing income		171,640	124,877
Provision for impairment in due from financing activities and lease receivables, net	4, 5	(30,255)	(28,897)
Net financing income after reserve for impairment in due from financing activities and lease receivables		141,385	95,980
Foreign exchange gain, net		18,524	21,153
Net financing income after net foreign exchange gain		159,909	117,133
Fee and commission income		75,862	74,054
Income/(loss) from construction projects, net		422	(267)
Net trading income		13,196	30,949
Other income		29,744	11,682
Total other operating income		119,224	116,418
Fees and commission expense		(11,401)	(14,111)
Staff costs		(66,256)	(59,925)
Depreciation and amortization expense		(10,575)	(8,629)
Withholdings and other taxes		(5,493)	(2,493)
Rent expense		(11,217)	(9,424)
Other expenses		(46,613)	(25,075)
Share of profit of an associate		(489)	-
Total other operating expense		(152,044)	(119,657)
Profit before income tax		127,089	113,894
Current tax charge	10	(26,999)	(19,648)
Deferred tax (charge) / credit	10	292	(3,260)
Net income for the period		100,382	90,986
Other comprehensive income for the period		-	-
Total comprehensive income for the period		100,382	90,986
Earnings per share (basic and diluted) for net income attributable to the ordinary equity holders of the Group during the period (in full TL per share)	13	0.183	0.165

The policies and explanatory notes on pages 6 through 20 form an integral part of the interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of changes in equity for the six month period ended June 30, 2010 (Currency - In thousands of Turkish Lira - TL)

	Notes	Share capital	Share issue premium	Legal reserves	Retained earnings	Total
Balances at January 1, 2009		500,000	23,250	12,313	153,137	688,700
Transfer from retained earnings to legal reserves		-	-	5,753	(5,753)	-
Dividends paid		-	-	-	(5,500)	(5,500)
Total comprehensive income		-	-	-	90,986	90,986
Balances, at June 30, 2009, (unaudited)		500,000	23,250	18,066	232,870	774,186
Balances at January 1, 2010		500,000	23,250	18,066	276,165	817,481
Share capital increase from reserves		50,000	-	-	(50,000)	-
Transfer from retained earnings to legal reserves		-	-	7,498	(7,498)	-
Dividends paid	12	-	-	-	(10,275)	(10,275)
Total comprehensive income		-	-	-	100,382	100,382
Balances, at June 30, 2010, (unaudited)		550,000	23,250	25,564	308,774	907,588

The policies and explanatory notes on pages 6 through 20 form an integral part of the consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of cash flows for the six months period ended June 30, 2010 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)
Cash flows from operating activities:			
Net profit before income tax		127,089	113,894
Adjustments to reconcile net income to net cash used in operating activities:			
(Gain)/loss on sale of property and equipment, intangible assets and investment properties		(3,224)	(485)
(Gain)/loss on sale of non current asset and liabilities held for sale		-	(867)
Depreciation and amortization		10,575	8,629
Reserve for employee termination benefits		(15,944)	(13,361)
Reserve for impairment in due from financing activities	4, 5	30,255	28,897
Expense accrual of participation accounts	9	(2,272)	7,845
Income accrual from deposits at the Central Bank of Turkey		(200)	713
Fair value movement of held for trading securities		-	(51)
Income accrual of funds invested		4,267	118,818
Expense accrual of funds borrowed		(3,423)	(14,197)
Net change in derivative financial instruments		(2,298)	(10,236)
Income taxes paid		(14,882)	(20,989)
Exchange gain of held to maturity investment		-	(80)
Operating profit before changes in operating assets and liabilities		129,943	218,530
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(23,325)	8,410
Due from financing activities		(1,114,561)	(416,134)
Minimum financial lease payment receivables		(16,917)	30,045
Other assets and construction projects		7,973	(71,142)
Current accounts and profit/loss sharing investors' accounts and other liabilities		688,852	783,333
Payment for employee termination benefits		(644)	(373)
Precious Metals		(10,202)	(168,658)
Net cash provided by / (used in) operating activities		(338,881)	384,011
Cash flows from investing activities:			
(Purchase) / Proceeds from the sale of held-to-maturity securities		7,529	(1,074)
Purchase of property and equipment, intangible assets and investment properties		(28,618)	(18,057)
Proceeds from sale of property and equipment, intangible assets and investment properties		2,579	2,224
(Increase) / decrease in non current asset and liabilities held for sale	7	(1,891)	1,150
Purchase of investments in associate		(15,999)	-
Net cash used in investing activities		(36,400)	(15,757)
Cash flows from financing activities:			
Dividends paid	12	(10,275)	(5,500)
(Decrease) / Increase in due to financial institutions and banks		55,594	(348,388)
Net cash provided by / (used in) financing activities		45,319	(353,888)
Net increase / (decrease) in cash and cash equivalents		(329,962)	14,366
Net foreign exchange difference on cash and cash equivalents		(1,576)	(27,070)
Cash and cash equivalents at the beginning of the period		1,142,409	1,187,596
Cash and cash equivalents at the end of the period	3	810,871	1,174,892
Profit share received		304,213	433,809
Profit share paid		144,547	198,104

The policies and explanatory notes on pages 6 through 20 form an integral part of the interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (Currency - In thousands of Turkish Lira - TL)

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/Istanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House.

The interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on August 14, 2009. 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, 2010, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has a 100% shareholding was incorporated in June 1996 in Turkey. The Bank had signed an agreement with Hayat Investment Company(Hayat, resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) in exchange for USD 10,613,000 and TL 2,450. The remaining 49% of its shares had been classified under investments in an associate in the previous year's financial statements. The aim of the acquirer, Hayat, was mainly to participate to the income of Kartal Shopping Mall and Residence Project which is run by Körfez.

On 6 June 2010 the Bank acquired back the 51 per cent of the outstanding ordinary shares of Körfez for 10,572,000 USD (16,840 TL) and TL 2,450 and classified it as subsidiary(Note 7) because there are legal issues with local municipality related with land of Kartal shopping mall and residence project. which prevented the construction to begin.

Körfez's registered address is Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/Istanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

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

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries (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, 2009.

2.2 Significant Accounting Policies and adoption of new standards

The accounting policies adopted in the preparation of the financial statements as of June 30, 2010 are consistent with those followed in the preparation of the financial statements for the year ended December 31, 2009 except for the adoption of new standards and IFRIC interpretations which are effective after January 1, 2010.

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

Amendments to IFRS 2 ‘Group cash settled share based Payment Transactions’,

IAS 39 Financial Instruments: Recognition and Measurement – ‘Eligible Hedged Items’,

IFRIC 17 ‘Distributions of Non-cash Assets to Owners’,

Improvements to International Financial Reporting Standards (issued 2008),

Improvements to International Financial reporting Standards (issued 2009).

IFRS 3, ‘Business Combinations’ (Revised) and IAS 27, ‘ Consolidated and Separate Financial Statements’ (Amended),

Adoption of these standards and interpretations did not have any effect on the financial position of performance of the Group, except for IFRS 3, ‘Business Combinations’ (Revised) and IAS 27, ‘ Consolidated and Separate Financial Statements’ (Amended), as the Bank has purchased 51% shares of Körfez in June 2010 (Note 1,7).

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

The following new standards, amendments to standards and interpretations have been issued subsequent to the date of the issuance of December 31,2009 annual consolidated financial statements and up to the issuance of the Group’s interim condensed consolidated financial statements but are not effective for the period ending June 30, 2010 and have not been early adopted.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

Improvements to IFRSs (issued in May 2010):

In May 2010, International Accounting Standards Board (IASB) made 11 changes in 7 standards:

- IFRS 1: Accounting policy changes in the year of adoption (effective from January 1, 2011)
- IFRS 1: Revaluation basis as deemed cost (effective from July 1, 2010)
- IFRS 1: Use of deemed cost for operations subject to rate regulation effective from January 1, 2011)
- IFRS 3: Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised standard
- IFRS 3: Measurement of non-controlling interests
- IFRS 3: Un-replaced and voluntarily replaced share-based payment awards
- IFRS 7: Clarification of disclosures
- IAS 1: Clarification of statement of changes in equity
- IAS 27: Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements
- IAS 34: Significant events and transactions
- IFRIC 13: Fair value of award credits

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 / TL	EUR / TL
June 30, 2009	1.5301	2.1469
December 31, 2009	1.5057	2.1603
June 30, 2010	1.5747	1.9217

2.4 Functional and presentation currency

The functional and presentation currency of the Bank and its subsidiaries is Turkish Lira (TL).

3. Cash and balances with banks

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Cash and balances with the Central Bank	273,534	239,090
Balances with Banks and other financial institutions	537,337	903,319
Total	810,871	1,142,409

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

4. Due from financing activities, net

	June 30, 2010	December 31, 2009
Performing		
Funds invested from profit/loss sharing accounts	2,631,862	2,695,133
Funds invested from current accounts and equity	2,814,513	1,653,503
Income accruals on due from financing activities (*)	102,590	115,271
	5,548,965	4,463,907
Funds in arrears		
Funds invested from profit / loss sharing accounts	167,556	178,259
Funds invested from current accounts and equity	125,890	126,770
	293,446	305,029
Total	5,842,411	4,768,936
Impairment allowance		
Funds invested from current accounts and equity	(95,314)	(92,115)
Funds invested from profit / loss sharing accounts	(88,764)	(90,035)
	(184,078)	(182,150)
Total due from financing activities	5,658,333	4,586,786

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

As of June 30, 2010 the Bank took possession of collateral (lands and buildings) from customers amounting to TL 49,797 (December 31, 2009 - TL 19,804), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

Movement in impairment allowance for funds disbursed is as follows :

	June 30, 2010	June 30, 2009
Balance at 1 January	182,150	157,668
Provisions – bank	28,912	28,409
Provisions - participation accounts	14,787	16,476
Recoveries of amounts previously provided for	(41,771)	(16,056)
Reserves written off in current period	-	(66,202)
Balance at the end of period	184,078	120,295

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is TL 41,771 (June 30, 2009 – TL 16,056) and this amount is included in other income.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

5. Minimum financial lease payment receivable, net

	June 30, 2010	December 31, 2009
Gross investment in finance leases	68,999	55,403
Unearned finance income	(5,177)	(5,417)
Total impaired receivables	10,565	4,809
Impairment allowance	(4,866)	(1,283)
Minimum lease payment receivable, net	69,521	53,512

Movements in the impairment allowance

	June 30, 2010	December 31, 2009
Balance at 1 January	1,283	6,074
Provisions – Bank	1,343	488
Provisions - participation accounts	3,283	1,762
Recoveries of amounts previously provided for	(1,043)	(68)
Reserves written off in current year	-	(3,038)
Balance at the end of the period	4,866	5,218

Gross investment in finance leases as to their maturity :

	June 30, 2010	December 31, 2009
Not later than 1 year (*)	56,618	37,224
Later than 1 year and not later than 5 years	21,583	22,973
Later than 5 years	1,363	15
Minimum lease payment receivables, gross	79,564	60,212
Less : Unearned finance income	(5,177)	(5,417)
Net investment in finance leases	74,387	54,795
Less : Reserve for impairment	(4,866)	(1,283)
Minimum lease payments receivables, net	69,521	53,512

(*) Includes total impaired receivables amounting to TL 10,565 (December 31, 2009 – TL 4,809).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

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

Net investment in finance leases as to their maturity:

	2010	2009
Not later than 1 year (*)	53,677	34,775
Later than 1 year and not later than 5 years	19,363	20,007
Later than 5 years	1,347	13
Net investment in finance leases	74,387	54,795

(*) Includes total impaired receivables amounting to TL 10,565 (December 31, 2009 – TL 4,809).

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

6. Property and equipment

Acquisitions and disposals

During the six months ended 30 June, 2010, the Group acquired assets with a cost of TL 10,224 (June 30, 2009 – TL 10,966).

Assets with a net book value of TL 968 were disposed of by the Group during six months ended 30 June 2010 (June 30, 2009 - TL 1,478), resulting in a net loss on disposal TL 444 (June 30, 2009 – TL 746).

7. Business combinations

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

On 6 June 2010, the Group bought back 51 per cent of the outstanding ordinary shares of Körfez, and obtained full control of Körfez by having 100 percent shareholding because the Kartal Project (Note 1) could not have been started. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The acquisition has been accounted for using the acquisition method. The acquisition date fair values are preliminary and may be adjusted upon completion of independent valuers' report. Hence, the fair value of previously held 49% shares of Körfez could not have been reassessed.

The interim condensed consolidated financial statements include 49% of net income of Körfez for the period ending June 30, 2010.

The goodwill of TL 6,659 arising from the acquisition consists of difference between the provisional fair value of the net assets of Körfez at the acquisition date amounting to TL 12,630 (51% of the total) and the for purchasing price amounting to 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued)
(Currency - In thousands of Turkish Lira - TL)

7. Business combinations (continued)

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

	Fair value recognized on acquisition Unaudited
Assets	
Property, plant & equipment-net	20,685
Investment property	16,699
Other non-current assets	6,609
Other current assets	6,254
Cash & due from banks	841
Inventory	205
	51,293
Liabilities	
Long Term Bank Borrowings	21,184
Due to related parties	5,207
Other current liabilities	75
Provision for ETB	62
	26,528
Total identifiable net assets at fair value for 100% of the shares	24,765
Total identifiable net assets at fair value for 51% of the shares (total acquired shares)	12,631
Goodwill arising on acquisition	6,659
Purchase consideration transferred (*)	19,290
Goodwill arising on acquisition	6,659
Impairment (-)	6,659
Balance at the end of the period	-

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

Analysis of cash flows on acquisition:

	Unaudited
Net cash acquired with the subsidiary	841
Cash paid	(16,840)
Net cash outflow	15,999

The fair value of property plant and equipment amounts to TL 20,685. The gross amount is TL 19,816 and the fair value difference results from valuation prices prepared by independent real estate valuation firm.

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

8. Other assets

Other assets comprise the following:

	June 30, 2010	December 31, 2009
Clearing accounts	91,030	58,833
Blockage for letter of guarantee	20,772	107,937
Collaterals for derivatives	26,779	-
Prepaid expenses	9,813	2,862
Receivables from banking operations	3,211	840
Receivable from assets sold	1,827	1,827
Value added tax (VAT) receivable	1,502	904
Other	17,124	7,164
	172,058	180,367

9. Current and profit loss sharing investors' accounts

	June 30, 2010	December 31, 2009
Current accounts:		
Turkish lira	792,380	748,450
Foreign currency	566,273	552,542
	1,358,653	1,300,992
Profit/loss sharing investors' accounts:		
Turkish lira	2,784,525	2,297,791
Foreign currency	1,870,427	1,820,352
	4,654,952	4,118,143
Blocked accounts:		
Turkish lira	20,515	23,404
Foreign currency	2,403	70,831
	22,918	94,235
Total current accounts and profit/loss investors' accounts	6,036,523	5,513,370
Expense accrual on current accounts and profit/loss sharing investors' accounts	29,559	31,831
Total current accounts and profit/loss sharing investors' accounts	6,066,082	5,545,201

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

10. 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 period/year ending June 30, 2010 and December 31, 2009 was 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 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 (2005 - 2009), 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.

	June 30, 2010	December 31, 2009
Current tax expense	26,999	34,902
Prepaid tax (-)	9,108	29,128
Income taxes payable	17,891	5,774

	June 30, 2010	June 30, 2009
Current tax expense	26,999	19,648
Deferred tax charge	(292)	3,260
Total income tax benefit	26,707	22,908

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

10. Income taxes (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the periods June 30, 2010 and 2009 are as follows :

	June 30, 2010	June 30, 2009
Net profit before income tax	127,089	113,894
At Turkish statutory income tax rate of 20%	25,418	22,779
Effect of income not subject to tax	(1,216)	(1,691)
Effect of expenditure not allowable for income tax purposes	1,777	1,974
Effect of restatement pursuant to IAS 29 and others	728	(154)
Income tax charge	26,707	22,908

Deferred income tax as of June 30, 2010 and December 31, 2009 are attributable to the following items :

	Deferred tax assets/(liabilities)	
	June 30, 2010	December 31, 2009
Provision for impairment in due from financing activities	5,393	10,642
Reserve for employment termination benefits	1,105	952
Deferred income	9,454	758
Bonus and vacation pay liability accrual of personnel	893	3,825
Effect of other temporary differences	1,004	680
Deferred tax assets	17,849	16,857
Restatement of property and equipment, intangible assets and other non-monetary items	2,662	2,828
Accounting for finance leases	947	542
Derivative accrual	1,199	738
Deferred tax liabilities	4,808	4,108
Deferred tax asset – net	13,041	12,749

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

	June 30, 2010	June 30, 2009
Balance at the beginning of the year	12,749	14,596
Deferred income tax recognized in income statement	292	(3,260)
Balance at the end of the period	13,041	11,336

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

11. Share capital

	June 30, 2010	December 31, 2009
Number of common shares, 1 TL, par value. Authorized, issued and outstanding.	550.00 million	500.00 million

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

	June 30, 2010		June 30, 2009	
	Number	TL	Number	TL
At January 1	500,000,000	500,000	500,000,000	500,000
Shares issued in				
- bonus shares from retained earnings	50,000,000	50,000	-	-
- cash	-	-	-	-
At period/year end	550,000,000	550,000	500,000,000	500,000

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, 2010 and December 31, 2009, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2010		December 31, 2009	
	Amount	%	Amount	%
Kuwait Finance House	342,290	62.2	311,173	62.2
Directorate of Foundations, Turkey	102,956	18.7	93,596	18.7
The Public Institution for Social Security, Kuwait	49,500	9	45,000	9.0
Islamic Development Bank	49,500	9	45,000	9.0
Other	5,754	1.1	5,231	1.1
Total share capital	550,000		500,000	

12. Dividends paid and proposed

Dividends paid and proposed

During the current period, the Bank has paid a dividend of TL 10,275 (June 30, 2009 - TL 5,500).

	June 30, 2010	December 31, 2009
Ordinary shares		
Amount	10,275	5,500
TL (full) per share	0.020	0.011

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

13. Earnings per share

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

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

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

	June 30, 2010	June 30, 2009
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	100,382	90,986
Weighted average number of ordinary shares for basic earnings per share (thousands)	550,000	550,000
Basic earnings per share (expressed in full TL per share)	0.183	0.165

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

14. Commitments and contingencies

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

a) The following is a brief summary of significant contingencies and commitments as of June 30, 2010 and December 31, 2009 :

	June 30, 2010	December 31, 2009
Letters of guarantee issued by the Bank	2,888,539	2,867,436
Letters of credits	435,022	426,991
Commitments	2,356,727	1,924,469
Acceptance credits	18,900	30,567
Other guarantees	5,299	5,637
Total	5,704,487	5,255,100

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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

14. Commitments and contingencies (continued)

Future minimum rental payables under operating leases are as follows :

	June 30, 2010	December 31, 2009
Within one year	16,098	17,368
After one year but not more than five years	46,215	35,933
More than five years	11,592	4,294
	73,905	57,595

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, 2010, the amounts of such checks and notes are TL 1,125,820 (December 31, 2009 – TL 965,756) and TL 248,075 (December 31, 2009 - TL 197,233), respectively.

15. Related party disclosures

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

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2010 and December 31, 2009 and also transactions which have been entered into with related parties during the six months period ended June 30, 2010 and 2009.

i) Due from financial institutions :

		June 30, 2010		December 31, 2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwait Dinar	7,410	40	5,343	28
	US\$	164,784	259	122,169	184
	BHD	15,446	65	19,271	77
		364		289	

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

15. Related party disclosures (continued)

ii) Current and Profit/loss sharing investors' accounts :

		June 30, 2010		December 31, 2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	51,281,392	80,753	26,210,417	39,465
Kuwait Finance House (1)	TL	-	2,632	-	2,632
Islamic Development Bank (1)	US\$	-	-	23,535,012	35,437
Directorate of Foundations, Turkey (1)	TL	-	-	-	3
Neova Sigorta A.Ş. (*)	US\$	6,641,149	10,458	7,663,881	11,538
	TL	-	1,501	-	-
Autoland	TL	-	2,452	-	-
Kredi Garanti Fonu	TL	-	392	-	-
Other		-	1,683	-	12,171
			99,871		101,246

iii) Profit shares distributed :

		June 30, 2010		June 30, 2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	16,766	26	23,840	37
Directorate of Vakıf Foundations, Turkey (1)	TL	-	-	-	-
Neova Sigorta	TL	-	192	-	-
Auto Land Otomotiv San. ve Tic. A.Ş.	TL	-	177	-	-
Kredi Garanti Fonu	TL	-	54	-	-
Other	TL	-	26	-	-
			475		37

iv) Non cash credits issued :

		June 30, 2010		December 31, 2009	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US\$	6,048,626	9,525	74,719	111
Other	TL	5,344,769	5,345	-	10,438
			14,870		10,549

(1) Shareholders

Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 4,276 during the six months period ended June 30, 2010 (As of June 30, 2009 - TL 4,631). As of June 30, 2010 the key management personnel did not receive any termination benefits (As of June 30, 2009 - nil).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements June 30, 2010 (continued) (Currency - In thousands of Turkish Lira - TL)

16. Subsequent events

- a) In the Board of Directors Meeting held on June 30, 2010, it has been decided to increase the Bank's capital in cash from TL 550,000 to TL 850,000 on July 21, 2010.
- b) In the Board of Directors Meeting held on June 30, 2010, it has been decided that starting August 2, 2010, the Bank will set up Type B Gold Stock Exchange Investment Fund.
- c) According to the Official Gazette no. 27656 dated July 29, 2010, the obligatory reserve rate for foreign currency has been increased from 9.5% to 10% by the Central Bank of the Republic of Turkey starting August 6, 2010.
- d) The Bank has issued Sukuk amounting to USD 100,000 on August 24, 2010.