



**KUWAIT TURKISH**  
PARTICIPATION BANK INC.

**ANNUAL REPORT**

2016

**KUWAIT TURKISH**  
**PARTICIPATION BANK INC.**

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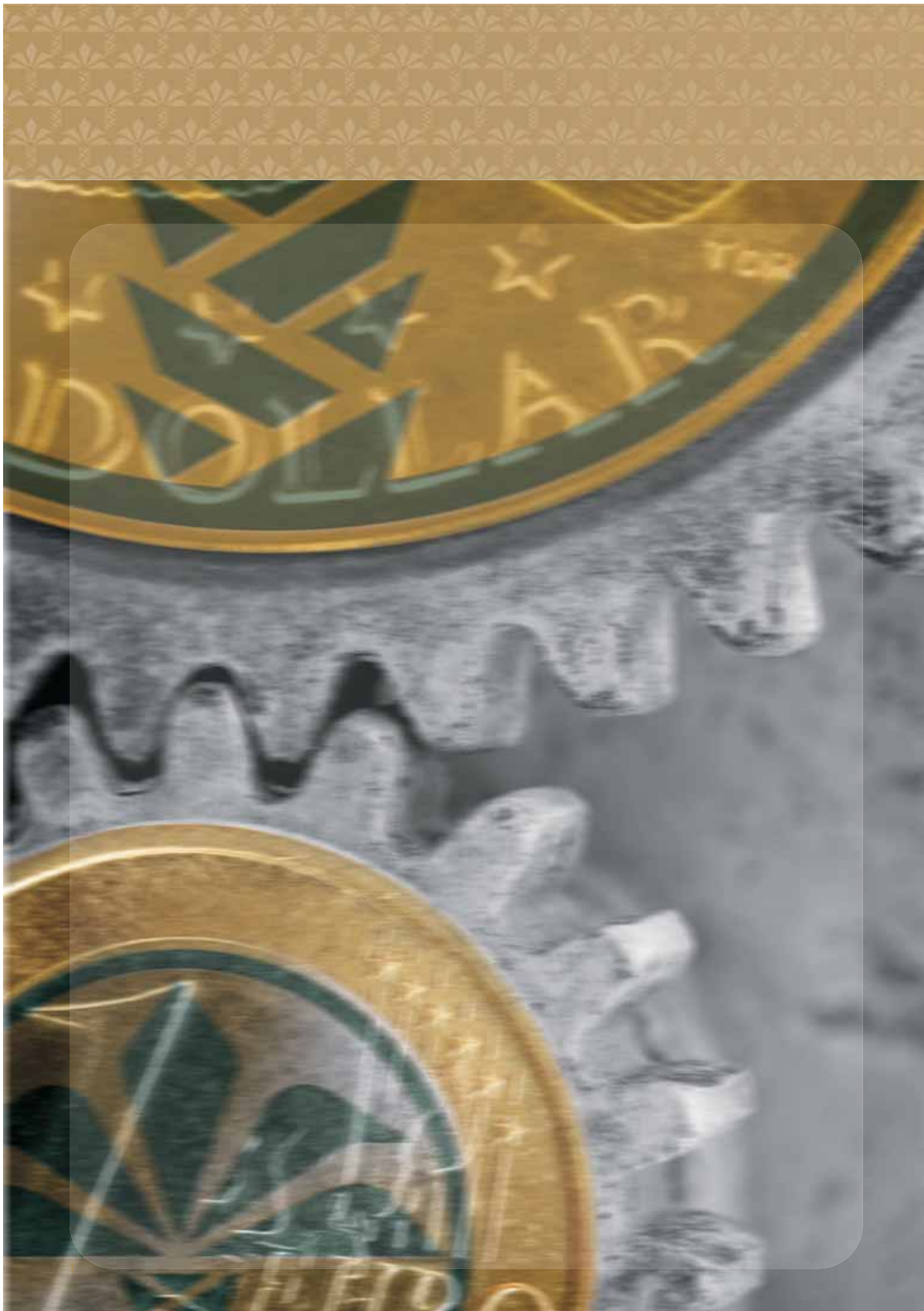
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## FINANCIAL HIGHLIGHTS

<b>Financial Highlights (US \$, 000)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Net income for the year	27,920	13,445	4,887
<b>Income from financing activities:</b>			
Profit/loss sharing accounts	122,291	83,128	62,122
Current accounts and equity	48,428	20,530	20,906
Profit on deposits with other banks and financial institutions	5,800	7,900	5,701
Profit on financial leases	11,863	15,658	13,217
Profit shares distributed	115,338	83,341	62,515
Foreign exchange gain (net)	6,124	6,849	1,622
Fee and commissions income (net)	40,516	33,445	19,764
Other operating income	5,816	14,800	8,257
Other operating expenses	97,579	85,524	64,187
Total Assets	2,088,624	1,759,841	1,171,614
Total shareholders's equity	191,156	171,491	162,786
Capital adequacy ratio	15.01%	13.27%	18.96%

## ABOUT KUWAIT TURKISH

### The Founding, Type of Service and Areas of Activity, Position in the Sector

Kuwait Turkish began banking and finance operations in 1989 with the support of internationally recognized shareholders including Kuwait Finance House, the Turkish General Directorate of Foundations, the Kuwait Social Security Institution, and the Islamic Development Bank. Its main area of business is providing funds for the real economy, collecting them as deposits to "Special Current Accounts" and "Profit and Loss Participation Accounts" and conducting the full range of financing activities within the framework of the relevant regulations. In this fashion, investment by real and legal persons involved in agricultural, industrial, and commercial activities are promoted and invested in, and by forming joint venture partnerships, these types of services and activities are conducted in accordance with interest-free banking principles.

As of the end of December 31, 2006, Kuwait Turkish conducted its activities with a total of 1,392 staff members employed at 78 corporate and retail branches, and 1 foreign branch (Bahrain). Kuwait Turkish's equity capital, which was YTL 19,000 in 1989 when the bank was founded, increased to YTL 247,238,000 as of the end of 2006, and its capital adequacy reached the levels of leading banks in Turkey. Kuwait Turkish Participation Bank continues to maintain its competitive strength and profitability among both interest-free and conventional banks. Everything from retail and corporate financing to credit cards, time and demand deposit accounts, automatic bill

payment, FX transactions, 24 hour access to their funds through ATMs, internet banking and call center services are available to Kuwait Turkish customers. In 17 years, Kuwait Turkish's dedicated staff has made it a leader in new product development. During the next ten years, Retail Banking, will be the primary area of growth and revenue generation for Kuwait Turkish, and a comprehensive development strategy is being implemented to achieve this. The

Bank's data processing infrastructure will also be restructured due to major changes in the accounting plan, the development of new products, and newly emerging needs, as well as Kuwait Turkish's on-going rapid growth.

The consistent strong performance of Kuwait Turkish over the past 17 years is based on its judicious investments, the sound environment it provides for its investors, its faith in Turkey's potential, and the close relationships it builds with its customers. Since its founding, Kuwait Turkish has

fostered Turkey's economic development by providing the financial support leading companies in the private sector need to become internationally competitive. As it moves closer to its goal of becoming one of the most respected financial institutions in Turkey, Kuwait Turkish will continue to build on its successes and reach a broader customer base with its experience in international finance and the innovative and high quality products that make it one of the country's leading interest-free financial institutions.



## A HISTORY OF KUWAIT TURKISH

### History

- 1989** Kuwait Turkish Evkaf Finance House begins banking and finance operations on March 31st with capitalization of TL 15 billion.
- 1990** Kuwait Turkish receives a gold medal for its contributions to the garment industry.
- By the decision of the Shareholders General Assembly, capitalization is increased to TL 30 billion.
- 1995** In recognition of its contributions to exports, the Turkish Union of Ready-Wear and Garment Exporters awards Kuwait Turkish a gold medal.
- 1996** Kuwait Turkish's real estate development subsidiary, Körfez Real Estate is established.
- 2000** The Kuwait Turkish branch network reaches 24, with half as many branches being opened as had been opened in Kuwait Turkish's entire first decade.
- The Retail Banking Department is established.
  - Kuwait Turkish becomes the first interest-free financial institution in Europe to receive ISO 9001-2000 Quality Certification.
- 2002** Kuwait Turkish becomes the first special finance house to be a member of Visa International.
- Kuwait Turkish moves its Istanbul Head Offices from Mecidiyeköy to its current high-tech building in Esentepe.
- 2003** In order to provide banking services in every corner of Turkey, an agreement is reached with the PTT, which has almost 1,000 on-line branches.
- 2004** SizCard, Turkey's first and only truly interest-free credit card is launched.
- The Bank's first European Representative Office opens in Munich.
  - The Bank's capitalization is increased from YTL 95 million to YTL 199 million.
- 2005** In recognition of its contributions to interest-free banking in Turkey, KTPB receives an award at the International Islamic Finance Forum held in Istanbul.
- 2006** The Bank officially changes its name from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş.
- The US\$ 50 million murabaha syndication credit secured for GAP Güneydoğu Textiles is the longest tenor interest-free credit secured from the Gulf Countries for any Turkish Company.
  - FitchRatings upgrades KTPB's Individual Rating from D/E to D and the Bank's AA (-) long-term local rating to AA (tur).
  - The US\$ 200 million murabaha syndication credit KTPB secured from banks in the Gulf and Europe is a first in Turkey and oversubscribed by US\$ 65 million, closing at US\$ 200 million, pointing to the importance of a strong rating.

## SHAREHOLDING AND CAPITAL STRUCTURE CHANGES MADE TO THE ARTICLES OF INCORPORATION

### Kuwait Turkish Participation Bank Shareholding and Capital Structure

No	Name/Title	Total Share Amount (YTL)	Share Percentage (%)
1	Kuwait Finance House	124,586,088	62.23
2	General Directorate of Foundations Turkey	37,473,719	18.72
3	Kuwait Social Security Institution	18,016,918	9
4	Islamic Development Bank	18,016,918	9
5	Komaş Kocatepe Modern Retailing Co.	765,895	0.38
6	Others	1,328,462	0.66
	<b>TOTAL</b>	<b>200,188,000</b>	<b>100</b>

- There have been no changes in the shareholders and capital structure during the fiscal year 2006.
- With shareholdings of more than 10 percent, Kuwait Finance House and the Turkish General Directorate of Foundations are considered key shareholders according to the Banking Regulations.
- The total shareholdings in the Bank of its Chairman of the Board, Members of the Board, Members of the Board of Auditors, the Chief Executive Officer and Executive Vice Presidents are 0.13%.

### Changes Made to the Articles of Incorporation

The Articles of Incorporation have been amended for legal compliance within the framework of the Banking Law, No. 5411, published on October 19, 2005.

The main changes made within this framework were the following:

- The Commercial Title has been changed (from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş.).
- The Audit Committee has been established.
- The adjustments regarding management have been made as required by law.



## MEMBERS OF THE BOARD



**Mohammed S. A. I. Alomar**  
Chairman of the Board

A graduate of the Chapman University Department of Economics in California, he joined Kuwait Finance House in 1992 after working as a financial analyst and manager in construction and real estate, investments, and purchasing. Alomar served as Deputy Vice President of the KFH International Construction and Real Estate Sector after assuming various responsibilities within the same department. Appointed Assistant General Manager of the Kuwait Finance House Investment Sector in 1999, Alomar has been the Chairman of the Board of Kuwait Turkish Participation Bank A.Ş. since 2000. He is also the General Manager of Kuwait Finance House.



**Abdullah Tivnikli**  
Vice Chairman of the Board

A graduate of the Mechanical Engineering Department of Istanbul Technical University, who also holds a Masters Degree from the School of Business Administration of the same university, Tivnikli first served in management positions in several private sector companies, before assuming the role of Manager of the Project and Financing Department at Albaraka Turk Participation Bank from 1984 to 1988. Tivnikli was appointed to the position of Vice Chairman of the Board of Directors at Kuwait Turkish Participation Bank in 2001, a capacity in which he continues to serve.



**Azfar Hussain Qarni**  
Member of the Board and the Audit Committee

A graduate of the Chemical Engineering Department of Ned University, he received his master's degree from the Business Administration Department of the Karachi University School of Business Administration and Economics. Starting his professional life as an assistant specialist at Imperial Chemical Industries in Pakistan, Qarni served at various levels in the National Development Finance Corporation of Pakistan, eventually being promoted to the Vice Presidency. Appointed as Islamic Development Bank Project Capital Officer in 1996, Qarni has been a member of the Board of Directors of Kuwait Turkish Participation Bank since 2003.



**Khaled Nasser Abdulaziz Al Fouzan**  
Member of the Board and the Audit Committee

A graduate of the Kuwait University Business Administration Department, Fouzan entered professional life at Kuwait Commercial Bank, later working as Director of Participations at the Kuwait Social Security Institution for 6 years. Appointed as Manager of the Banking Department in 1984, Al Fouzan continued his career at the Social Security Institution after 2004 as the Assistant General Manager for Finance & Management. Al Fouzan has served as Member of the Board of Directors at Kuwait Turkish Participation Bank since August 2006.



**Shaheen Hamad Abdulwahab Al Ghanem**, Member of the Board

A graduate of the Kuwait University Department of Economic and Political Sciences, he entered professional life as Chief Accountant at the Kuwait National Gas Company in 1989. After working in leading investment firms in the Gulf Region, he served as Manager of the Financial Control Department at Kuwait Finance House in 2001. Al Ghanem has been a Member of the Board of Directors at Kuwait Turkish Participation Bank since 2006.

## MEMBERS OF THE BOARD



**Kenan Karadeniz**  
Member of the Board

A graduate of the Physics-Chemistry Department of Trabzon Fatih Institute of Education, he started his professional life at the Real Estate Office of the Trabzon Regional Directorate of Foundations, later working at the Istanbul Regional Director of Foundations, Istanbul Regional Director of Real Estate and Revenue, and in the Istanbul Metropolitan Municipality Directorate of Real Estate, he served as member of the Board of Directors at Kiptaş A.Ş. and Halk Ekmek A. Ş. successively. Working as Department Director and Assistant General Manager at the General Directorate of Foundations since 2005, Kenan Karadeniz has been a Member of the Board of Directors of Kuwait Turkish Participation Bank since 2006.



**Dr. Adnan Ertem**  
Member of the Board

A graduate of the Istanbul University School of Political Science, Public Administration Department, he also received a master's degree from the Institute of Social Sciences, Political Science Department at the same university. He was awarded a doctorate degree in 1998 for his thesis on Social Structure and Social Transformation. After starting his professional life in 1988 as Assistant Auditor at the General Directorate of Foundations Audit Committee's Office, Ertem was appointed as the Istanbul Regional Director of Foundations in 2002 after serving in various positions within the same organization. Appointed as Member of the Board of Directors of Kuwait Turkish Participation Bank in the same year, Adnan Ertem continues to serve in that position.



**Fawaz KH E Al Saleh**  
Member of the Board

A graduate of the Business Administration-Economics Department of Macalester College in the USA, he worked as an Auditor and Supervisor at Ernst & Young between the years 1987-1992. Joining Kuwait Turkish Participation Bank as a member of the Fund Management Department in 1996, Al Saleh served as Deputy General Manager of Kuwait Turkish Participation Bank between the years 2001-2006. He was appointed a Member of the Board of Directors in October 2006.



**Ufuk Uyan**  
Chief Executive Officer and Member of the Board

A graduate of the Bosphorus University Department of Economics, he also received a master's degree from the Business Administration Department of the same university. After starting his professional life as a Research Assistant at the Bosphorus University Department of Economics, he later served as a research economist at the Turkish Industrial Development Bank (Türkiye Sınai Kalkınma Bankası), Directorate of Special Research. Uyan joined Kuwait Turkish as the Director of Projects and Investments in 1989. Appointed Assistant General Manager in 1993, Uyan has served as Chief Executive Officer and Member of the Board of Directors since 1999.

## SENIOR MANAGEMENT



From left to right

Ahmet Süleyman Karakaya Executive Vice President, Corporate and Commercial Banking  
İrfan Yılmaz Executive Vice President, Retail Banking  
Ruşen Ahmet Albayrak Executive Vice President, Operations Technology and Administrative Services  
Ufuk Uyan CEO  
Hüseyin Cevdet Yılmaz Chief Risk Officer, Audit and Risk  
Bilal Sayın Chief Credit Officer, Credits  
Ahmet Karaca Chief Financial Officer, Financial Control

## SENIOR MANAGEMENT AND AUDITORS

### SENIOR MANAGEMENT

#### **Ufuk Uyan, CEO and Member of the Board**

A graduate of the Bosphorus University Department of Economics, he received a master's degree from the Business Administration Department of the same university. After starting his professional life as a Research Assistant at the Bosphorus University Department of Economics, he later served as a research economist at the Turkish Industrial Development Bank (Türkiye Sınai Kalkınma Bankası), Directorate of Special Research. Uyan joined Kuwait Turkish as the Director of Projects and Investments in 1989. Appointed Assistant General Manager in 1993, Uyan has served as Chief Executive Officer and Member of the Board of Directors since 1999.

#### **Bilal Sayın, Chief Credit Officer, Credits**

A graduate of the Middle East Technical University Public Administration Department, he started his banking career in 1990 at Albaraka Türk, Sayın joined Kuwait Turkish as Supervisor in 1995 and worked in the Projects and Investment Office. Appointed as Fund Allocation Management Director in 1999, he has continued to serve as Chief Credit Officer responsible for Credits since 2003.

#### **Ahmet Süleyman Karakaya, Executive Vice President, Corporate and Commercial Banking**

A graduate of the Istanbul University School of Economics, Department of Business Administration and Finance, he started his banking career as an auditor at Garanti Bank; Karakaya then worked as Director of Risk Management, Credits Manager, and Regional Manager at the same bank. He has held the position of Executive Vice President responsible for Corporate and Commercial Banking at Kuwait Turkish since 2003.

#### **İrfan Yılmaz, Executive Vice President, Retail Banking**

A graduate of the Istanbul Technical University School of Business Administration, Department of Management Engineering, he started his banking career at the Office of Financial Affairs at Kuwait Turkish in 1990. Yılmaz was promoted to Audit Committee Chairman in 1998 and became Director of Retail Banking in 2000. He was appointed Executive Vice President responsible for Retail Banking in 2005.

#### **Ahmet Karaca, Chief Financial Officer, Financial Control**

A graduate of the Ankara University School of Political Science, Department of Public Administration, he received a master's degree from the New York State University Department of Economics. He did his thesis work on International Banking and Capital Markets. Having started his career as Assistant Certified Bank Auditor at the Turkish Treasury, he last held the position of Chief Certified Bank Auditor at the Banking Regulation and Supervision Agency (BRSA) before joining Kuwait Turkish in 2006 as the Chief Financial Officer responsible for Financial Control.

#### **Hüseyin Cevdet Yılmaz, Chief Risk Officer, Audit and Risk**

A graduate of the Bosphorus University School of Economics and Administrative Sciences, Department of Business Administration, he started his career in banking as an Assistant Auditor in the Esbank Audit Committee's Office in March 1991. After serving in various positions within this organization, he joined Kuwait Turkish in September 2000 as Manager of the Audit Committee. Appointed in 2002 as the Assistant General Manager responsible for Internal Audit and Risk Management Systems, Yılmaz has served as Chief Risk Officer responsible for Audit and Risk since 2003.

#### **Ruşen Ahmet Albayrak, Executive Vice President, Operations Technology and Administrative Services**

A graduate of the Istanbul University Industrial Department of Engineering, he received a master's degree in Organizational Leadership and Business Administration from the University of North Carolina, USA. Joining Kuwait Turkish Participation Bank in 1994, he served in the Financial Analysis and Marketing units until 1996. Continuing his career in various firms as consultant, Member of the Board of Directors and Managing Director, Albayrak returned to Kuwait Turkish in 2002 as Deputy Assistant General Manager Responsible for Branch Operations. He was appointed Executive Vice President responsible for Operations, Technology, and Administrative Services in 2005.

#### **Kashif Saeed Khan, Executive Vice President, Human Resources and Quality**

A graduate of the Punjab University (Pakistan) School of Technology, Department of Chemical Engineering, he entered professional life as a consultant with Coopers & Lybrand in 1995. Khan then served as an Assistant Manager at Citibank N.A. and later as a senior consultant at Kuwait Finance House. Joining Kuwait Turkish Participation Bank in 2003 as Head of Human Resources and Quality, Kashif Khan was appointed Executive Vice President in 2005.

### AUDITORS

#### **Prof. Dr. Sabahattin Zaim, Member of the Board of Auditors**

Prof. Dr. Zaim graduated from the Ankara University Faculty of Political Science in 1947 and later received a law degree from the same university. In 1955, he completed his doctorate at Istanbul University, then continued his academic career as a professor at a number of universities in Turkey and abroad, also serving as the Dean of Sakarya University and a Member of the Board of Higher Education. Prof. Dr. Zaim has also worked at several international organizations, including the Organization of the Islamic Council and the Islamic Development Bank, as well as serving as a senior executive and advisor to a number of private companies and civil administrative bodies. Prof. Dr. Zaim has received numerous awards recognizing his contributions and is also the author of many books, articles and academic studies.

#### **Ömer Asım Özgözükar, Member of the Board of Auditors**

A graduate of the Ankara University Faculty of Political Science, he started his professional life as an Assistant Auditor at the Ministry of Finance. He conducted studies and surveys on capital markets and mutual funds in the United Kingdom. In addition to serving as the Vice President of the Istanbul Auditors Group and Vice Chairman of the Board of Auditors at the Ministry, Özgözükar taught at Bosphorus University between the years 1981-1982. He has worked as a Finance Director, Vice Chairman of the Board of Directors, and Manager at various firms. Receiving the title of Certified Auditor upon the enactment of Law No. 3568 regulating the Auditing Profession, Özgözükar has been a Member of the Kuwait Turkish Participation Bank Board of Auditors since 1988.

#### **Miktad Yetim, Member of the Board of Auditors**

A graduate of the Mathematics Department of the Istanbul Atatürk Educational Institution, Yetim began his professional career in the Istanbul Regional Headquarters of the Turkish Directorate of Foundations, following which he served as a manager in the Greater Istanbul Metropolitan Municipality Directorate of Real Estate. Miktad Yetim was appointed as the Assistant Regional Manager for the Istanbul Foundations Directorate in 2003, a position he continues to hold, and joined Kuwait Turkish Participation Bank as a Member of the Audit Committee in 2006.

## CHAIRMAN'S LETTER

### To Our Valued Shareholders,

This year I enjoy a pleasure granted to very few Chairmen. It is my privilege to announce that in year three we have completed the objectives we targeted for year five of the Kuwait Turkish Participation Bank (KTPB) Ten-Year Strategic Development Plan. This achievement is conclusive proof of our faith in the Turkish market and our commitment to the development of interest-free banking in Turkey. In the past three years, we have nearly doubled the total value of our balance sheet. At the same time, we have expanded our branch network by nearly 50 percent. Most importantly, even while we were in the process of accomplishing this, we have maintained consistently satisfying levels of profitability, with 2006 being Kuwait Turkish Participation Bank's most profitable year ever.

KTPB has led the Turkish interest-free banking industry in terms of innovation virtually since our founding. Our record of innovation includes groundbreaking plastic cards, segmented accounts with service and profit levels tailored to customer needs and more. In 2006, our commitment to innovation continued with KTPB offering consumers the first low-cost home finance loan. As a Bank, we were very proud of this product, because it allowed us to share the benefits of our low cost of financing with Turkish consumers, helping them to make their dreams of home ownership a reality.

Another important innovation was Small Business and Tradesman Finance. Our objective with this product, which is a start-to-finish banking and finance solution for small businessmen, was to bring sophisticated banking services to an overlooked segment of the market. By designing a seamless package that integrates features from our retail and corporate banking offerings, we have been able to provide a service specially tailored to the unique needs of Turkey's small business men, the tradesmen, artisans and entrepreneurs who make this such a vital economy. Understanding their needs and circumstances allows us to give them service that makes them feel like each one of them is a giant holding company, and, not surprisingly, the response from new and existing customers has been excellent. Small Business and Tradesman Finance is one way we contribute to the real economy and to rising standards of living, but there are many others. Trade finance, where our non-cash credits business has been growing at double-digit rates for the past several years, is an area where we help Turkish exporters to reach markets around the world and ensure that Turkey is able to import the raw materials and equipment it needs to continue building an internationally competitive economy. KTPB's strategy for 2007 calls for continued



focus on simultaneous growth in retail and corporate banking. Branch expansion will also continue with at least fifteen new branches to be opened in 2007 and our representative office in Germany to be converted into an investment company. Internationally, we will continue to work to create funding facilities that offer superior returns to investors and provide KTPB customers with attractive terms and tenors. In 2006, however, the most important development from KTPB's perspective was Turkey's first-ever Murabaha Syndication Facility. Investors offered US\$ 265 million, meaning the facility was oversubscribed by more than 160 percent, indicating both international investors' interest in Turkey and their strong confidence in KTPB. The Syndication Facility, which was capped at US\$ 200 million, allows us to leverage the Bank's superior access to low-cost funding in order to finance real sector growth in industries like manufacturing and construction. Bringing funding of this nature to Turkey gives KTPB customers access to funding resources above and beyond the Bank's already significant retail deposits, while also allowing us to increase our contributions to the real economy, helping to spur economic growth and generate new jobs in important value-added industries.

Most importantly, we are planning a capital increase totaling US\$ 50 million in 2007. As we approach the end of our second decade, Kuwait Turkish Participation Bank is stronger and more dynamic than ever. Our team of professionals leads the industry with their experience and track record of innovation. We are looking forward to another year of record growth and profitability as we work to deliver results both for our shareholders and for Turkey. I would like to personally thank all of the men and women who have made this possible and to express my gratitude both to our management and our Board of Directors for their firm and visionary leadership.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mohammed S. A. I. Omar'. The signature is stylized and fluid, with a prominent loop at the end.

Mohammed S. A. I. Omar  
Chairman

## CEO's LETTER

### Dear Shareholders,

I greet you after a year in which Kuwait Turkish Participation Bank (KTPB) enjoyed record profits as we continued our record-breaking expansion of our operations and branch network. Outstanding results like these are proof of the effectiveness and insight of our ten year strategy and also of the sweeping and fundamental nature of the changes in the Turkish economy, changes we have long advocated and which have unlocked the potential that we and our valued shareholders have always seen in the economy of this dynamic nation.

During 2006, we followed a dual strategy focused both on consumer banking and corporate banking, which allowed us not only to diversify our business lines and our risk but also to be positioned to reap the full benefits of Turkey's strong economic performance. With Gross Domestic Product (GDP) growing at an estimated six percent for the year, and exports growing nearly 20 percent, this dual strategy yielded excellent results, as our bottom-line attests. More importantly, the expansion in our balance sheet paves the way for expanded growth in 2007 and beyond, because we concentrated on building the kind of business that allowed us to increase credits to existing customers by 35 percent in 2006, a testimony to the deep loyalty our customers feel to KTPB and the way our staff are able to create innovative interest-free products that address the real needs of our customer base.

Relevant products, like the longest-term interest-free home loans in the market and attractively priced non-cash credits made possible by our superior access to low-cost international funding, helped KTPB to increase our customer base by 17 percent. A further increase of 20 percent is targeted for 2007. Product diversification that was implemented in Retail Banking has helped funds collected to grow to US\$ 1.135 billion. Strong growth in our customer rolls, of course, translated into equally strong growth both in our deposits, which stood at US\$ 1.6 billion as of year-end 2006, and in our assets, which, by the end of the year had reached US\$ 2.1 billion, reflecting both our customer's confidence in KTPB and also the appeal of our innovative and pro-active approach to interest-free banking.

Our bank has a long tradition of innovation in interest-free finance, and we remain focused on introducing new products to the market, because results have proven time and again that new products are the best way to attract and retain customers. KTPB's market share in the most attractive segments of the interest-free finance market clearly indicates this, and innovation is continuing with two important new products to be introduced in the first quarter of 2007 alone. Thanks to KTPB, for the first time, interest-free savers will be able to pick the deposit maturity of their choice, offering them a combination of high earnings, convenience and flexibility. Savers will also be able to invest their savings in accounts tied to gold, with KTPB becoming the first Participation Bank licensed to trade on the Istanbul



Gold Exchange. Our activities on the Gold Exchange also give us the opportunity to provide corporate clients with a range of cash management and hedging products. In conjunction with our non-cash credits business, it is these kinds of value-added services that make KTPB the interest-free finance partner of choice for leaders in the Turkish real economy, the producers and traders who drove Turkey's remarkable growth in exports in 2006 and who will continue to prosper as the country moves toward achieving its target of US\$ 110 billion in exports. The Bank's strong links with them were also the reason that we were able to nearly double the size of our interest-free international syndicated credit facility.

In another groundbreaking move, we have also begun offering Turkey's entrepreneurs the same range of products and quality of service that we provide to the country's most dynamic manufacturers. Our objective in creating what is, effectively, a new business line and one never before offered by the interest-free finance industry, is to give smaller and newer businesses access to the funding and financial products that they need to grow and make greater contributions to the Turkish economy. We have received excellent response to this new business line and expect it and our other new products to drive the high levels of growth we are targeting for 2007.

In 2007, we will open more than a dozen new branches, both expanding our geographic representation and deepening our presence in key markets. Driven in part by the growth in the number of our branches, but even more by the impact of our continuously improving service quality and innovative products, by the end of the year we expect to increase our customer base significantly. While these are ambitious targets, our five-year growth trend is clear indication that they, like our equally demanding profitability target, are attainable. As we work to achieve these targets, the secret of our success will be the dedicated, professional men and women of Kuwait Turkish Participation Bank. I would like to personally thank them for their achievements in 2006 and look forward to what they will accomplish in 2007.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ufuk Uyan'. The signature is stylized and fluid, with a long, sweeping underline that extends to the right.

Ufuk Uyan  
CEO & Member of the Board

## CORPORATE BANKING

### Corporate and Commercial Banking

The Corporate Banking Department offers a wide range of products to meet the 360 degree banking needs of its customers. Providing high quality service with a commitment to excellence for customers of any size regardless of the sector in which they operate, Kuwait Turkish has made it its goal to offer efficient and effective products that improve the business competitiveness of its corporate customers. Corporate banking will therefore continue to be one of Kuwait Turkish's primary areas of activity.

Starting in 2006 with the missions of broadening its customer base, increasing yield per customer, and reaching its financial goals, KTPB created a schedule of activities spread over the year to ensure that its products are marketed effectively. With credits, non-cash credits, foreign trade financing services, and similar products, companies are offered specially tailored cash management and payment systems in order to help them meet their diverse financial needs. Corporate banking products are designed specifically for the real sector and serve to help businesses sustain and expand their production and competitiveness, help them make the most of domestic and foreign



business opportunities, and facilitate existing banking relationships. Corporate Banking plays a key role in the Bank's profitability and, in 2006, not only achieved its yearly profitability goal but in fact exceeded it by an extremely impressive 47 percent. Corporate finance not only provides strong earnings potential but also contributes positively to Turkey's economy at both the micro- and macro-economic levels. KTPB provides a wide range of useful financial and advisory services such as helping to evaluate and activate new business ideas and leading the creation of new business lines financed by its corporate banking cash credit products; supporting the growth of companies that have limited equity capital and borrowing opportunities; and generating improved revenues for both small and large firms by helping them to decrease the costs of their financing. Credit transactions resulted in a 99 percent success rate against an ambitious goal in 2006. When non-cash credits' share in total credit volume is considered, the result is much more impressive, with this number reaching 120 percent of the amount targeted for 2006. The strong results achieved for 2006 are, in large measure, the product of excellent success in attracting high quality new corporate banking customers. The fact that the number of corporate customers increased by 17 percent during 2006 has contributed to both the achievement of annual goals and growth goals. This kind of growth makes the target of 20 percent

increase in the number of customers a realistic expectation for the year 2007. In international trade finance, including products such as letters of credit, and letters of guarantee, results for the year 2006 were double those of the previous year. Total international trade finance volume, US\$ 1.1 billion in 2005, reached US\$ 2 billion in 2006. In cash management, the Direct Collection System is to be implemented in 2007 as part of the on-going program to design new corporate solutions products. The contracting sector and international trade finance sectors, which were given priority in growth goals, will also be at the top of the agenda in 2007. The focus will be on non-cash credits, like letters of guarantee and foreign trade. The effective use of alternative distribution channels by corporate customers is of great importance for both customer satisfaction and for effective cost management on the part of KTPB, so directing corporate customers towards alternative distribution channels and especially internet banking will be as important an objective in 2007 as it was in 2006.

### Credits

The Credits Department works in coordination with the Corporate and Commercial Credits Department, Retail Banking, other relevant banking units and the branch network to ensure the quality of KTPB's assets. The Department reviews and updates its business processes on an on-going basis to ensure that its evaluation and company credit rating procedures are at the forefront of the latest developments in banking both in Turkey and internationally.

In 2006, the Credits Department evaluated a total of 7,705 firms, conducting a thorough analysis of the company's finances, as well as the business logic behind the investment for which the placement or line would be used. All evaluations included a visit or visits to the customer's premises, analysis of financials and of the type of investment for which the requested funding limit would be used. Roughly 50 percent of the evaluations were positive and resulted in the renewal of limits for companies that have existing limits, limit increases or, for new customers, assignment of a new limit. New limits assigned in 2006 exceeded US\$ 1 billion, while renewals of existing limits and limit increases totaled in excess of US\$ 3.1 billion.

A total of 3,326 companies applied for a new funding limit and 61 percent of these applications were approved. KTPB credit experts apply proven and internationally accepted methods including customer visits, financial analysis, intelligence-gathering and reporting, followed by a complete analysis of the project in question, its redemption value and viability. The priority the Credits Department places on the highest standards of due diligence is one of the reasons that KTPB consistently enjoys one of the highest credit ratings in the Turkish financial market and recently had its rating by Fitch Ratings raised above that of the sovereign. As in 2006, the Credits Department, in 2007, will continue to draw on its superior infrastructure and experienced professional staff to serve the best interests of the Bank at the same time that it provides KTPB customers with fast, responsive, high-quality service.

## RETAIL BANKING



Continuing its development in retail banking with ambitious goals and solid execution, Kuwait Turkish is on an accelerating growth curve with its infrastructure investments, new projects, and innovative products. As a result, Retail Banking made a 28 percent contribution to the Bank's 2006 profits. Ensuring customer satisfaction by providing high quality service and looking out for mutual benefits in products designed with the social responsibility objective of adding value to individual investments and savings and utilizing them for the benefit of Turkey's economy are the goals of Kuwait Turkish.

Organizing Retail Banking under four main headings, Kuwait Turkish groups its transactions into: fund collection, consumer finance, credit cards, and alternative distribution channels. Despite the decrease in the value of Turkish Lira in the months of May and June and the Central Bank's tight monetary policy designed to slow accelerating growth, significant deposit collection success was achieved in the first half of 2006. The product diversification and customer segmentation initiative implemented by Kuwait Turkish played a major role in this success. As of year-end, growth in the Retail Banking reached US\$ 1.135 million in funds collected, equivalent to 91 percent of the goal of US\$ 1.244 million. The objective is that the growth in fund collection, which was up 21 percent in 2006 when compared to 2005, will continue to increase in 2007. Significant growth was also achieved in banking services revenue, with YTL 5.3 million in counter service revenue earned as of the end of 2006. It is anticipated that although profit margins are expected to narrow across the market, this will be compensated at KTPB by the increase in non-operating revenues.

Retail Banking's strategy is to increase emphasis on small business products in order to reach the growth targets for 2007. With its 'Esnaffinans' tradesman and entrepreneur banking package offering the full range of banking products that businesses need, while also providing special discounts for tradesmen, Kuwait Turkish has started providing a bundled package of services especially for these consumers, including checkbooks, check collection, POS services, and facilitated processing and discounted transaction costs in fund disbursement rates. As of the end of 2006, the retail credit portfolio was over US\$ 500 million, and this is expected to grow rapidly with the introduction of a lending program focusing on small businesses that will be launched in 2007. SizCard, a groundbreaking interest-free credit card, has shown impressive development both in terms of number of cards issued and transaction volumes within a period of 2 years and has become one of KTPB's locomotive strategic products. Generating volume of US\$ 4 million in its first year, SizCard had turnover of US\$ 12 million in 2006. In addition to this, the Business SizCard, a version of SizCard designed specially for SMEs, has also been launched. In credit card services, Kuwait Turkish aims for growth

primarily in the commercial card sector for the coming year. Organizational changes and workflow improvements have been made to better manage the expanding card product range and new card features. A department called "Payment Systems" has been established, bringing together the entire plastic cards business under one roof. The aim of this restructuring is to improve the quality of credit card, ATM and POS services.

The Retail Banking Department focused on investing in technological infrastructure, with the goal of improving the efficiency of telephone and Internet banking services. These investments were part of a larger initiative designed to stimulate customer loyalty and retention. Telephone banking functionality and capacity were expanded in 2006, and a much larger segment of the customer base was provided with round-the-clock and high-quality banking service. An Internet banking site designed using the most advanced technology and offering a range of new functions went live in 2006, allowing customers to conduct a greater variety transactions using the Internet and greatly contributing to the main goal of decreasing the demand for in-branch banking. Steady growth in transaction volumes was achieved, with a 6 percent increase in each month following the launch of the new site. In 2006, the total number of registered Internet and telephone banking users reached 98,280. In 2006, the number of installed POS terminals reached 7,528, of which 1,000 were mobile and the remaining were desktop terminals. In order to expand the POS transactions network, virtual POS and GPRS POS solutions have been implemented. 5,000 new POS terminals are to be purchased in 2007 in order to meet increasing demand from member businesses. In addition, work is being done to ensure that the 8,500 existing POS terminals are used efficiently, focusing on businesses with a high volume of POS transactions. The POS transaction volume in 2006 was YTL 403 million and the POS transaction volume in 2007 is expected to be YTL 430 million. In 2006, the number of ATMs reached 75 and a total of 735,000 transactions were conducted by 125,000 KTPB ATM cardholders, with 10 new ATMs being installed at the new branches. ATM sharing via the Common Point (Ortak Nokta) service within Turkey and VISA abroad have been implemented; ATM screen graphics were redesigned and updated. ATM projects scheduled for 2007 include envelope-free direct deposit of funds, credit card payments, utility bill collection services, and selling prepaid GSM phone minutes. Retail Banking activities, which are extremely important for Kuwait Turkish, will grow at an increasing rate, and the contribution of the Retail Banking sector to total corporate profitability is expected to be 44 percent in 2007.





## INTERNATIONAL BANKING, INVESTMENT BANKING, TREASURY



### International Banking

Proud of an international identity that stems from its corporate and shareholding structure, international banking at KTPB is a core business line that broadens the Bank's horizons and allows it to offer its customers a range of services more competitively than any other interest-free financial institution in Turkey. Kuwait Turkish's international banking activities not only increase its international prestige but also bring foreign resources and investments to Turkey, as well as helping

in line with its goals and business needs. These meetings had positive results in terms of strengthening relations, signing new agreements, and continuing the expansion of the KTPB correspondent network. The visits to Qatar and Saudi Arabia especially have yielded dividends in terms of building new connections. Of the Gulf countries, the United Arab Emirates and Bahrain were at the top of the trip's agenda on because of their strategic place in Turkey's financial relations with the region. In addition to these, as part of the Department's European trip, meetings were conducted with German banks and public authorities in coordination with Kuwait Turkish's representative office in Germany. The numerical results clearly indicate that the Bahrain branch is in a strategic position to establish collaborations with the Gulf countries. Total deposits collected by the Bahrain branch stood at US\$ 132 million in 2005, rising to US\$ 152 million in 2006.

In 2006, Kuwait Turkish adopted a new strategy based on deepening relations instead of targeting purely numerical increases in the size of its correspondent bank network. New agreements in Treasury and Investment Banking were signed with existing correspondent banks, leveraging those relationships to expand business lines. The increase obtained in the direct financing provided by correspondent banks shows that Kuwait Turkish continues to conduct its international



to represent Turkey in the best possible way globally. Reviewing the projects concluded in 2006, the numbers point to a successful year. Kuwait Turkish started 2006 with two main goals: growth in the area of Foreign Trade Financing and development of long-term financing agreements with foreign banks. To achieve these goals KTPB continued to build on its relationships with its international correspondent banks and also to deepen ties with individual and corporate investors either directly or through its Bahrain Branch and German representative office. Aware of the crucial role connections with correspondent banks play in international relations, Kuwait Turkish conducted visits to correspondent banks throughout the year

banking activities on a sound and effective platform. International borrowings, which are by bilateral agreement, were at the US\$ 50 million in 2005, and grew into a resource totaling US\$ 60 million, exclusive of the US\$ 200 million syndication facility that was arranged in the fourth quarter.

## INTERNATIONAL BANKING, INVESTMENT BANKING, TREASURY



### Investment Banking

In investment banking, KTPB, in 2006, continued to set the standard by which Turkey's participation banks are measured. During the year, the focus remained on structured finance, an area where KTPB has significant experience and in which it has built an international reputation as an important player able to tailor facilities to the needs both of investors and borrowers. Since its establishment the Investment Banking Department has built a record for itself as a pioneer in the Turkish market, and 2006 was no exception, with the Department achieving two major firsts.

Matched Murabaha, a product which the Investment Banking Department introduced to the market and which continues to be offered to international investors and Turkish Small and Medium-sized Enterprises (SMEs) only by KTPB, is a structured facility in which the maturities and amounts of funds sourced internationally are matched with the needs of leading SMEs. In 2006, the Department arranged a total of US\$ 50 million worth of Matched Murabahas for a range of customers in dynamic sectors like energy, manufacturing and construction. Just as KTPB has designed this instrument to meet the needs of Turkey's dynamic SMEs, the Bank also offers competitive financing solutions for large corporate customers.

Of these, the most important is Syndicated Facilities, where KTPB, as the arranger in conjunction with joint arrangers like Kuwait Finance House, Kuwait and HSBC Plc., arranged syndicated facilities totaling US\$ 130 million in 2006. These high-profile transactions were arranged for two leading Turkish conglomerates: the Çalık Group and the Ülker Group. The first facility of US\$ 50 million, for Çalık Group company, GAP Tekstil, holds the record for the longest tenor of any syndicated Murabaha transaction in Turkey, with a maturity of 4.25 years. The other transaction, for the Ülker Group's Yıldız Holding, totaled US\$ 80 million and also has a comparatively long tenor of three years. Reflecting international confidence in KTPB and strong interest in the Turkish market, both transactions were oversubscribed. The headline transaction of the year, however, was the syndicated master Murabaha transaction which is the first of its kind concluded by a participation bank in Turkey. KTPB, as borrower, was seeking US\$ 100 million in funds in a syndication fully underwritten by its mandated arrangers: ABC Islamic Bank, Gulf

International Bank and Standard Chartered Bank. Within just one month, guaranteed commitments totaled US\$ 265 million, and KTPB capped the 165 percent oversubscribed transaction at US\$ 200 million with a two-year tenor and very competitive cost.

In addition to being massively oversubscribed, perhaps the most interesting aspect of the syndication was that participants were nearly evenly split between financial institutions in the Gulf Region and Europe. That 43 percent of the syndicate funds, equivalent to US\$ 86 million, came from European institutions is a clear indication of the impact KTPB has on the market and the extent to which its reputation for leadership and excellence has spread beyond the borders of Turkey. Equally importantly, the Investment Banking Department was able to achieve all this without the need for a Road Show. In another indication of KTPB's role as an innovator, other Turkish participation banks followed KTPB steps and launched their own syndicated borrowings.

### Treasury

The Treasury Department followed a cautious and conservative strategy in fulfilling its risk management responsibility in 2006. The foreign currency position of Kuwait Turkish Participation Bank (KTPB) was managed within tight limits, and similar care was shown in managing liquidity. As a result of this conservative approach, the Treasury Department did not experience any negative effects from the currency rate fluctuations that took place in 2006, and managed to easily achieve its profitability target.

As a result of the activities of the Treasury Marketing Unit, the customer base that is directly served by the Treasury has been expanded and the contribution of the TMU to KTPB's profitability has increased substantially. Product development activities have gained momentum, and KTPB has become a member of the Istanbul Gold Exchange, allowing the Treasury to offer new products not only to corporate customers but to individual savers as well. As a result, gold-based transactions will increase significantly with the new product offering. The Treasury Department is planning to increase department profitability by starting equity trading transactions during 2007. Speculative trading transactions are currently limited to foreign currencies.



*In 2006, the Department arranged a total of US\$ 50 million worth of Matched Murabaha for a range of customers in dynamic sectors like construction and manufacturing.*

## FINANCIAL CONTROL



The Kuwait Turkish Participation Bank Financial Control Group is divided into two units: the Accounting and Control Unit and the Budgeting and Reporting Unit, allowing KTPB to conduct its financial control activities with greater discipline and within the framework of a more effective system.

The Financial Control Group is responsible for establishing the Bank's accounting records system, monitoring the proper functioning of that system and, if necessary, immediately correcting any errors, as well as confirming the accuracy of all data entering the system from any one of a variety of sources; the data that has been collected and confirmed, combined with data from other sources, is then used to create an accurate and forward-looking budgeting and reporting system.

The KTPB Financial Control Group, as a part of its budgeting function, plays a crucial role in creating the Bank's road-map and strategy for the year and then takes the lead in monitoring and evaluating progress in accordance with that road-map and strategy. It is also responsible for ensuring that branches and Head Office departments understand the objectives for the year and the specific action plans drawn up on the basis of these objectives. Progress reviews are held at least monthly and, in the event that there are deviations from the action plans, the reasons for these are identified and corrective measures are taken; additionally, performance evaluations are conducted to ascertain objective realization rates.

### Accounting & Control

The Accounting Unit, as a sub-division of the Financial Control Group, is responsible for ensuring that all transactions are accurately recorded in the unified accounting system, solving any issues related to accounting procedures applied at Branches and Head Office Departments, and ensuring that there is an effective and reliable recording system in place to protect the Bank from losses that could arise from accounting errors and to monitor the performance of this system on an on-going basis. The Unit is also responsible for the accounting and payments for all transactions including purchases of goods and services, construction projects, interior decoration, fixed assets, leasing agreements and Head Office personnel expenses. The Unit's functions also include monitoring KTPB's accounts with its domestic and international correspondent banks, as well as maintaining all records and ledgers pertaining to the Bank's legal obligations, whether for tax or other purposes.

### Budgeting & Reporting

One of the factors that makes the Financial Control Group of such strategic importance is its responsibility for budgeting. The importance of budgeting, particularly in terms of management information and monitoring, has grown in parallel with the continuous expansion in the KTPB branch network, as well as in the Bank's balance sheet. The KTPB budgeting process is designed to use modeling of scenarios based on possible future events to ensure that the Bank's operations are proactive, productive and sound. The forward-looking and scenario-based budgeting process impacts every aspect of the Bank's business from its funding policy to every other transaction conducted. The budget is a vital tool that is designed to allow the Bank to see the profits and losses of each individual branch, allowing them to be managed in accordance with KTPB's primary strategic objectives, as well as monitoring their performance on a consolidated basis.

In reporting terms, the Financial Control Group's reports can be divided into two fundamental categories, namely Internal Reporting and External Reporting, which are categorized as follows:

**Internal Reports** are prepared for shareholders, senior management and other units, branches and departments. Some reports are generated automatically on a daily basis by the core banking system, or can even be tracked in real-time; while others that require additional data are custom prepared by the unit. These reports include weekly, monthly, quarterly and yearly reports, with some examples of the reports the unit produces being: a weekly report for the Assets & Liabilities Committee, monthly Profit & Loss Statement and Balance Sheet, monthly branch and sector performance reports, as well as market position reports comparing KTPB to other participation banks and conventional banks. In addition to these periodic reports, the Unit also prepares a number of special purpose and one-time-only reports on request throughout the course of the year.

**External Reports** include periodic reports prepared for official bodies such as the Banking Regulation and Supervision Agency, the Central Bank, the Treasury Undersecretariat, the Savings Deposit Insurance Fund and the Participation Banks Union, as well as other ad hoc reports requested by these and other similar bodies. Approximately 70 different reports, with periodicities ranging from daily and weekly to monthly, quarterly and annual, are prepared for the BRSBA, and, as the institutions that guide the development of the economy, the Central Bank and Treasury Undersecretariat also review a significant number of reports. Reports are also prepared for the Participation Banks Union, the Deposit Insurance Fund, and various other organizations.



## AUDIT AND RISK



### Risk Management

In 2006, Risk Management operated on the basis of the standards set out in regulations including the BASEL II road-map, the Banking Law Number 5411, issued on November 1, 2005, and the "Regulation Regarding the Internal Control and Risk Management Systems of Banks", Number 24312, issued by the Banking Regulation and Supervision Agency on February 8, 2001, as well as the "Regulation Regarding the Internal Systems of Banks", Number 26333, which the Agency issued on November 1, 2006.

The Risk Management Committee ensures awareness of the risks the Bank faces as a consequence of market conditions, new regulations and legal procedures, as well as the Bank's own internal dynamics and provides senior management with the data necessary to make strategic decisions in the light of the potential impacts of these risks. In addition to providing senior decision-makers with timely and accurate information, the Committee is also responsible for organizing Risk Awareness training programs at KTPB, with the most important training priority for 2006 being BASEL II.

The Turkish banking sector will convert to the BASEL II standards in 2008, and preparations at KTPB are moving at full-speed. KTPB has always set itself apart from other participation banks in Turkey as an early-adopter and trailblazer and, with an eye to building on that status, Bank personnel are educated not only about BASEL II, but also about other risk-related issues on an on-going basis; while, at a more strategic level, the staff of the Risk Management regularly take part in executive-level training programs both in Turkey and abroad.

The KTPB Risk Management Committee applies the standard reporting and accounting methods specified by the legal entities and regulators as well as internationally accepted models, interpreting these in light of macro- and micro-economic trends. As a leading participation bank, KTPB is aware of the responsibilities of its position and monitors the interest-free banking market in monthly reports submitted to senior management. In addition, weekly, monthly and quarterly market risk reports are prepared, and at regular intervals BASEL II Development and Progress Reports, Risk Matrices and Risk Evaluation Reports are provided to the BRSA.

As part of the Market Risk Policy, Dealer, Stop-loss and Take Profit limits have been defined on a daily, monthly and annual basis and put into implementation. In cooperation with the Bank's main shareholder, Kuwait Finance House, and its subsidiaries, credit risk modeling studies based on BASEL II have also been conducted. Within this framework, companies offering expert systems have provided sample programs, made presentations and submitted bids.

During 2007, the final model will be established and brought on-line. The most important aspect of the work undertaken regarding Risk Policies and Application Principles was the Operational Risk Policies and Application Principles Report, prepared in 2006 and implemented in early 2007, which will guide the Board of Auditors and Internal Control Center's risk-based auditing policies in 2007.



## AUDIT AND RISK



### Board of Inspectors

In keeping with the provisions of the Banking Law and regulations and communiqués concerning auditing, as well as the Bank's own internal regulations, the Board of Inspectors reports to the Audit Committee, which is composed of Board Members with no executive responsibilities, and to the Responsible Board Member of The Internal System. The staff of the Board of Inspectors consisted, in 2006, of 20 personnel, including a Head, four senior inspectors, one IT inspector, eight authorized assistant inspectors and six assistant inspectors. In keeping with the provisions laid out in the relevant regulations, the primary responsibilities of the Board of Inspectors are as follows:

- a) To conduct investigations and audits, both on site and centric, of all financial issues, documents, accounts, records, personnel and all other matters that may effect the well-being and soundness of the Bank.
- b) At the request of the Board of Directors to conduct audits, inquiries and investigations at both the Bank's Head Office and branches.
- c) To conduct assessments of the risk management system and internal control processes of the Bank and to submit reports on the conclusions resulting from these inspections to the Board of Directors.
- d) To audit the IT systems of the Bank and to assess the risks they present in order to ensure the uninterrupted functioning of the Bank and prevent any possible losses resulting from an interruption of operations and, within this framework, to ascertain that these systems function efficiently and to assess priority risks, particularly in the areas of legal and operational risk. The Board of Inspection carries out its activities on the basis of the annual program established at the start of the year. As part of the program, a total of 65 investigations, 12 inquiry reports and 12 investigation reports were prepared. All reports were submitted to the Chief of the Audit Risk Group, which in turn presented them to the Board of Directors and Senior Management. As a part of its responsibilities, the Board of Inspection regularly audits KTPB's branches and conducts regular audits of Head Offices units at least once per annum with some units being audited twice per annum.

### Internal Control

The Internal Control Center was established to design, apply, manage and monitor internal control activities and report the results to KTPB management in order to ensure that KTPB's operations are in accordance with internal and external regulations. The Center's vision is to establish an environment in which employees can foresee and evaluate the risks engendered, both to themselves and to KTPB, by their actions and the transactions they conduct, and where employees realize that initial control responsibility for their transactions starts with them and that they are active and effective members of KTPB's control structure.

In 2006, the Center adopted a versatile and many-faceted strategy to introduce the desired level of control and risk consciousness, including a variety of centralized and on-site controls. Central control consisted of monitoring compliance levels and risk-bearing activities on an on-going basis, evaluating business processes and new products from a risk perspective, as well as playing an active role in establishing functional descriptions and ensuring that transaction execution procedures were applied. One example of this procedure would be: working in coordination with a department or unit, business process steps and controls relating to accounting and financial reporting, credits and treasury processes are outlined and workflow diagrams are established.

During 2006, a total of 40 branches and 3 Head Office departments were subject to on-site controls, in which areas subject to risk had previously been identified and, after evaluation, if an active risk were determined to exist, was reported and kept under surveillance.

For 2007, the Center is targeting, in addition to risk-based centric and on-site controls of branches, investigations of relevant departments and units at the Head Office.



## OPERATION, TECHNOLOGY AND ADMINISTRATIVE SERVICES



### Operations Center

The Operations Center is responsible for process management designed to increase the effectiveness of KTPB's operations and for ensuring that these processes are integrated with and backed by the latest technology and applications. The objective of the process management system is to allow the Bank to generate maximum benefits from its personnel, striking a balance between maximizing worker productivity to ensure a lean operation and providing the resources to handle increasing transaction volumes as KTPB grows.

In evaluating the business processes associated with the products offered by KTPB's branches, the first priority is to ensure that branch personnel and branch operations remain focused on customer service and sales. For this reason, to the greatest extent possible, Operation Activities of the branches have been transferred to the Operations Center. The next two priorities in process management terms are to leverage technology in order to simplify operations and to improve operational control. To guarantee that the processes it has designed deliver the best possible business results, the Operations Center is committed to making maximum effective use of technology. While never ignoring the importance of technology, the Operations Center believes "people are what really matters" and, on that basis, designs all systems and processes keeping in mind the needs of those who will offer the product or service in question and those who will use the product or service. One of the key elements in this is the training programs organized by the Operations Center. The Operations Center applies the principle that, to get the best results from newly designed or expanded products and processes, it is crucial that the training for those be provided by the originators to make sure that they are implemented properly and presented effectively to customers. To this end, in 2006, the Operations Center provided training to 127 operations staff, 25 branch managers, 165 retail and corporate banking representatives and 15 branch operations officers as part of an extensive, in-depth training program. In addition, all written and visual materials pertaining to the program have also been posted on the KTPB Intranet, allowing staff to access them easily and making it possible to keep them fully updated.

During 2006, significant emphasis was placed on shortening teller transaction times and providing faster, higher quality service. The first step was to secure accurate information on transaction times and types by ensuring that the Q-Matic ticketing units in the branches were employed correctly. Following that, utilizing the data generated from the Q-Matic units, steps were taken to improve processes. Thanks to steps implemented as part of a program conducted with

all branches across Turkey, in the first ten months of 2006, the average transaction times of all tellers were reduced from 3.56 minutes to 3.31 minutes. Another important initiative in 2006 was the important steps taken in document scanning and document management technology. Projects including check clearing data entry, collateral form documentation and digital archiving of customer signatures made significant contributions to both the speed of operations at KTPB and also to security and quality.

However, what was one of the most important projects in 2006 was the conversion to VOIP (Voice Over Internet Protocol). In a six-month pilot project conducted at twelve locations, all international, long-distance, GSM and internal calls were moved from conventional systems to VOIP, generating cost savings equivalent to 43.4 percent, or in monetary terms, YTL 93,822. The result was a simultaneous increase in customer satisfaction and branch effectiveness. In the first eight months of 2006, call traffic at the Call Center increased by 222 percent compared to the same period of 2005, and the value of transactions conducted by the Call Center rose from US\$ 6,946,291 to US\$ 37,254,957, an increase of 436%. The Operations Center also saw significant growth in transaction volumes in 2006 compared to 2005. Increases included Foreign Trade transactions, up 24.17 percent from 19,003 to 23,597 transactions, Back Office transactions, up 48.54 percent from 39,581 to 59,515 transactions, Main Vault transactions, up 18.82 percent from 13,800 transactions to 16,397 transactions, Funds Utilization transactions, up 6.43 percent from 23,411 to 24,915 transactions, and Check Clearing, up 24.47 percent from 1,211,998 transactions to 1,508,616 transactions. As a result of the Operations Center's cost cutting and revenue generating initiatives, additional revenue totaling US\$ 216,000 was generated in 2006. Building on these initiatives, the department began work on a number of projects that are still being carried out, including Q-Matic customer prioritization, screen-based blacklist checks, integration of the customer complaint system with the Call Center, and the development of a branch operation scoring system.

### Information Technology

During 2006, the Information Technology Department focused on implementing best practice in IT management at KTPB, working on introducing COBIT (Control Objects for Information Technology) and adapting and implementing international best practice standards. Upon the decision of the Banking Regulation and Supervision Agency (BRSA) to audit banks' Information Technology (IT) management on the basis of COBIT standards, this project also became a regulatory requirement.



## OPERATION, TECHNOLOGY AND ADMINISTRATIVE SERVICES

KTPB's IT units established a group that was guided and supported by Deloitte Consulting, and this group devoted six months to developing the procedures necessary to operate in conformity with COBIT standards. The same team is currently in the process of applying these procedures and processes, making them an integral part of the Bank's operations. Simultaneously, Ernst & Young, one of the auditors authorized by the BRSA, began auditing KTPB's IT units. Preliminary reports from Ernst & Young indicated that the audit results are, thus far, extremely positive. A list of the most crucial projects undertaken by the Information Technology Group in 2006 is as follows:

**Internet Banking:** KTPB's Internet banking packages were completely overhauled in 2006, with both Retail Banking and Corporate Banking applications replaced with new Source Code and user interfaces running on a new architecture .Net The new Internet banking system was completed and went live in June 2006.

**Disaster Recovery Center:** A new Disaster Recovery Center was established at IBM's Data Center in Izmir. All environmental changes and functionality tests have been successfully completed.

**Helpdesk Management Program:** A new program named "Spectra" was acquired and implemented, in order to improve effectiveness in the management and tracking of helpdesk services and problem management.

**Data Security:** In order to guarantee the security of data transferred between the KTPB Head Office and Branches, data encryption and compression technology were installed for all data lines.

**Platinum, Gold and Silver Packages:** A module was added to the KTPB Core Banking System that allows the Bank to evaluate customers according to their relationships with KTPB and categorized them. With this system, KTPB is more effective in providing the right customers with the right products and services.

### Administrative Services

As a result of KTPB's aggressive expansion policy, 2006 was a very challenging year for the Administrative Services Department. Over the course of the year, 11 new branches were opened in the cities of Balıkesir, Rize and Silopi, the Demetevler and Kızılay districts of Ankara and the Avcılar, Kurtköy, Çağlayan, Çemberlitaş, Şirinevler and İstic districts of Istanbul. In addition, three existing branches, one in the city of Kayseri and two in the Istanbul districts of Fatih and Kadıköy, were completely renovated and redecorated in keeping with the Bank's new branch standards, while one branch, in the



Istanbul district of Beşyüzevler was relocated. Investments made in the opening of new branches and the renovation of existing branches totaled US\$ 3.6 million, and KTPB plans to intensify its expansion efforts in 2007, when ten new branches will be opened and five existing branches will be renovated. The Department's other activities in 2006 focused on generating cost savings, improving security and increasing efficiency. The emphasis in 2006 was particularly on cost saving initiatives, and, in keeping with this objective, savings of approximately 20 percent were secured on all items listed in the purchasing budget. To improve security, all vehicles owned by the Bank were equipped with satellite monitored tracking systems. Improvements in efficiency and effectiveness will be generated by the new business processes system, still in the beta-testing phase, developed in cooperation with the IT Department, which will automatically send all service, maintenance and similar requests directly to the Administrative Services Department.



### Corporate Communications and Advertising

Consolidating its position in the banking and finance sector with every passing day, Kuwait Turkish has made a name for itself not only with its banking activities but also with projects created and supported as part of its corporate social responsibility program. Undertaking important projects in the areas of education, culture, and the arts have contributed greatly to burnishing the Bank's public image.

Bringing together the Bank's advertising, public relations, and corporate social responsibility activities under one roof, the unit has enthusiastically conducted important projects to help preserve Turkey's cultural heritage through corporate social responsibility initiatives, while also reporting to its shareholders, its customers, and the general public Kuwait Turkish's achievements and innovations and the growth it has achieved. As part of these projects, primary sources have been scanned to prepare Kuwait Turkish's prestige catalogue "Lost Occupations" trying to bring to light historic occupations that are lost or struggling to survive in the modern world. "Grand Bazaar Conversations" and "Beyazit Lectures" are two other important projects bringing history to life. The project reclaiming the Grand Bazaar, which is one of the first examples of today's shopping centers and where principles of service and commercial ethics originated with the formation of professional guilds, was conducted jointly with the Istanbul Provincial Directorate of the Ministry of Culture and Tourism. Also organized by the Istanbul Provincial Directorate of the Ministry of Culture and Tourism and sponsored by Kuwait Turkish, the Beyazit Lectures were held at the Beyazit Government Library with distinguished speakers sharing their wealth of knowledge with guests.

## HUMAN RESOURCES AND QUALITY



### Human Resources

As it expands, its human resources are unquestionably KTPB's most important assets. It is for this reason that the Bank has a very strict hiring policy, places the utmost emphasis on training programs and has made major investments in human resources information management software, as well as taking steps on a day-to-day basis to build on the overall quality of the Institution and its operations.

Prospective employees under go a competency-based interview process and only join the KTPB family after a multiple elimination selection system. In 2006, employee numbers increased by 10 percent, reaching 1,392, and a further increase of almost 20 percent is expected for 2007.

For employees, their development and advancement potential are as or more important than the satisfaction they feel with their current position. For this reason, special programs have been developed to foster employee loyalty on the basis of motivation and performance. In May 2006, an internal customer (employee) satisfaction survey was conducted, and on this basis a strategic report was prepared for senior management. This report contained a review of the results of the survey also based on in-depth interviews with staff and contained a proposal for changes that should be made in the KTPB organizational structure.

KTPB places great importance on employee development, both during the induction process and throughout the terms of their employment. Training programs offered in 2006 focused on ensuring that new employees had the knowledge, skills and behavioral attributes necessary to fulfil their positions, to develop the expertise and experience of existing employees and, laying the groundwork for a succession plan, that potential senior executives received the development training they needed. In total 6,144 hours of training were provided, representing an increase of 35 percent over 2005. Additionally, to increase both the quantity and types of training offered, an on-line, self-service training system was developed. Training modules offered in this fashion included Personal Development, Finance, MS Office and Quality. Among the 1,225 personnel who made use of this system, the most popular offerings were Dispute Resolution, Basic Financial Analysis and Customer-Centric Relationship

Management. On the basis of close monitoring of employee performance, a total of almost 200 promotions were made in 2006. The innovative approach typical of KTPB is also evident in the effective way that technology was integrated into the Bank's human resources processes. After evaluation of several options, an Oracle-based database package was acquired and implemented. The system, in addition to compiling data on each employee, provides a transparent system in which employees and executives are able to access data on the basis of assigned access levels, making it an excellent example of a self-service application. Thanks to this system, an employee's business travel, leave, compensation breakdown and performance record can be easily accessed and put into various reporting formats. In addition, the system also allows the personnel director to review and approve requests for vacations, promotions and transfers. The system has already made great contributions to data sharing, transparency and efficient time management at KTPB.

### Quality

During 2006, business process analysis meetings were held with approximately fifteen departments, and the process inventories of those departments were updated accordingly. Within the framework of this same initiative, 80 percent of the process mapping procedure for the Credits, Treasury, Foreign Currency Transactions, Accounting and Alternative Distribution Channels Departments was completed. Prior to 2006, "procedures" were used to outline and map business process, but, as of 2006, this was discontinued and instead, the more effective practice of writing quality documents was adopted in its place. Because it offers advantages including high efficiency, easy comprehensibility and simple updating, the process scheduling technique is used by leaders in a variety of sectors and will continue to be employed at KTPB in 2007.

The Quality Department's priority for 2007 is to create awareness among process-owning departments of the need to ensure that their process documents are up-to-date. The second of the Department's targets for 2007 is to make the maximum effective use of its intranet portal, which allows employees to easily access and search documents using a variety of criteria. As of the month of March, Processes for Treasury, Deposits and Alternative Distribution Channels were available via the intranet portal, and it is the objective of the Department to make the "INSTITUTION DOCUMENTS" link on the portal one of the links most used by KTPB employees. Another objective for 2007 is to make it possible for employees, who are in essence KTPB's internal customers, to more easily and effectively communicate suggestions and improvement projects to the relevant departments and executives, to ensure that these suggestions are discussed with the relevant departments and, on a quarterly basis, to honor the most effective cost-savings improvement plans with an award.

*KTPB places great importance on employee development, both during the induction process and throughout the terms of their employment.*



## MANAGEMENT AND CORPORATE GOVERNANCE

### Members of the Board

The Board of Directors meets on a quarterly basis and holds interim meetings as necessary. During 2006, a total of five meetings were held, all of which were attended by a majority of the members.

Name	Assignment	Term (in years)	Education
Mohammad S. A. I. Alomar	Chairman	6	University
Abdullah Tivnikli	Vice Chairman	5	Master
Azfar Hussain Qarni	Member	4	Master
Khaled AL Fouzan*	Member	5 months	University
Shaheen AL Ghanem	Member	1 months	University
Kenan Karadeniz*	Member	7 months	University
Adnan Ertem	Member	5	Doctorate
Fawaz KH E Al Saleh	Member	3 months	University
Ufuk Uyan	Member	7	Master

- Detailed resumes of Board Members and Chairman can be found on page 10 and 11.
- The indicated terms of the President and the members cover the period they have been in their current positions as of December 31, 2006.
- \* Kenan Karadeniz has been appointed to the position of Member of the Board that was left vacant by Osman Niyazi Akçay.
- \* In 2006 Khaled Al Fouzan has been appointed to the position of Member of the Board that was left vacant by Rashad Salem Al Fouzan.

### Senior Management

Name	Assignment	Term (in years)	Education
Ufuk Uyan	CEO	7	Master
Bilal Sayin	Chief Credit Officer, Credits	4	University
A. Süleyman Karakaya	Chief Financial Officer, Financial Controls	4	University
İrfan Yılmaz	Executive Vice President, Retail Banking	2	University
Ahmet Karaca	Chief Financial Officer, Financial Control	6 months	Master
H. Cevdet Yılmaz	Chief Risk Officer, Audit and Risk	4	University
R. Ahmet Albayrak	Executive Vice President, Operations and Administrative Services	2	Master
Kashif Saeed Khan	Executive Vice President, Human Resources and Quality	2	University

- Detailed resumes of the Chief Executive Officer and Senior Management can be found on page 13.

## MANAGEMENT AND CORPORATE GOVERNANCE

### Audit Committee and Senior Management

Name	Assignment	Term (in years)	Education
Prof. Dr. Sabahattin Zaim	Member	11	Doctorate
Ömer Asım Özgözükara	Member	17	University
Miktad Yetim	Member	1	University

- Detailed resumes of the Members of the Audit Committee can be found in page 13.
- The term of assignment of the Auditors and senior managers indicated above covers the period they have been in their current positions as of December 31, 2006.

### Management of Audit and Risk Systems

Name	Assignment	Term (in years)	Education
Adnan Ertem	Member of the Board	1	Doctorate
Hüseyin Cevdet Yılmaz	Chief Risk Officer	3	University
Aydın Akkoç	Audit Committee Chairman	3	University
Tamer Selçuk Durman	President of Risk Management	3	University
Bahattin Akça	President of the Internal Control Center	3	University

- During the fiscal year 2006, units operating under Internal Systems were assigned to Adnan Ertem, the Member of the Board responsible for Audit and Risk Management.
- The assignment periods indicated above for managers within internal systems are the lengths of time for which they have been in their current positions as of December 31, 2006.

## MANAGEMENT AND CORPORATE GOVERNANCE

### RISK COMMITTEES AND AUXILIARY COMMITTEES

#### Audit Committee

Established in accordance with article 24 of the Banking Law No 5411, the Audit Committee consists of two Board Members without executive responsibilities. The audit committee meets every two months.

Name	Position	Term	Education
Azfar Hussain Qarni	Member	2 months	Masters
Khaled Nasser Abdulaziz Al Fouzan	Member	2 months	University

- Detailed resumes of Audit Committee members can be found in section 1.5 of this Annual Report.

#### Credit Committee

It is the duty of the Credit Committee to review all credit applications received by the Bank. The committee meets regularly to evaluate applications, and approves or rejects the ones that fall within the scope of its authority.

##### President

Mohammad S. A. I. Alomar  
Chairman of the Board

##### Members

Abdullah Tivnikli,  
Vice Chairman of the Board  
Ufuk Uyan,  
Member of the Board, Chief Executive Officer

#### Executive Risk Management Committee

Purpose: The Executive Risk Management Committee was established in line with the "BRSA – Directive on Internal Audits and Risk Management", which was published in the Issue 24312 of the Official Gazette on February 8, 2001 and our Bank's "Regulations on the Risk Management System". The Bank's Risk Committee and the other sub risk management committees that report to it are responsible for the preparation and presentation of reports that, in conjunction with decisions reached by other committees, such as the Asset and Liability Management Committee, the Credit Committee and the Strategic Planning Committee, are responsible for shaping the Bank's risk management strategies and policies, submitting these to the Board of Directors for their approval, supervising implementation, representing the Risk Management Group before the Board of Directors and for the document evaluating the Bank's degree of riskiness that will be prepared as required by Article 43 of the BRSA Directive dealing with this subject, as well as the emergency and unforeseen circumstances that will be prepared as required by Article 42 and presented to the Board of Directors for evaluation and approval. The committee meets on a quarterly basis.

##### President

Adnan Ertem  
Member of the Board

##### Members

Mohammad S. A. I. Alomar  
Chairman of the Board  
Ufuk Uyan  
Member of the Board, Chief Executive Officer  
Hüseyin Cevdet Yılmaz  
Chief Risk Officer-Audit and Risk Management  
Tamer Selçuk Durman  
President-Risk Management

#### Assets and Liabilities Committee

The Assets and Liabilities Committee is the highest level committee in charge of the Bank's assets and liabilities. The committee meets on a weekly basis.

##### President

Ufuk Uyan  
Member of the Board, Chief Executive Officer

##### Members

Ahmet Karaca,  
Chief Financial Officer, Financial Control  
Bilal Sayın,  
Chief Credit Officer-Credits  
A. Süleyman Karakaya,  
Executive Vice President-Corporate Banking  
Hüseyin Cevdet Yılmaz,  
Chief Risk Officer-Audit and Risk  
İrfan Yılmaz,  
Executive Vice President-Retail Banking  
Tarık Tüzün, Manager, Treasury

#### TRANSACTIONS CONDUCTED WITHIN THE RISK GROUP

Information regarding transactions conducted within the Risk Group of which the Bank is a member is provided in detail in Note 23 of the Independent Auditor's Report.

## MANAGEMENT AND CORPORATE GOVERNANCE

### RECRUITMENT AND PROMOTIONS POLICIES

#### Recruitment:

Recruitments at KTPB are based on the Human Resources budget set at the beginning of the year. In the recruitment process, Human Resources uses competency-based interviewing techniques and, for certain positions, personality tests may also be employed. For some operational positions at the Head Office, high school or vocational school graduates will be considered, whereas for other staff positions, priority is given to applicants with four-year degrees in Management, Economics, Finance, Econometrics and other banking related fields. Recent graduates are preferred for the majority of recruitments. For the few positions that require special skills and qualifications, external candidates with prior banking experience will be considered. For managerial positions at branches and the Head Office, positions are generally filled by promotions from within.



#### Promotions Policy:

The grading structure within KTPB offers wide possibilities for promotion to all employees. In the promotion process, the employee's performance and time in grade is submitted with a promotion request letter from the department heads and is approved by Human Resources and the related department EVP. Other than in exceptional situations, all promotions take place during the month of March. For promotions to positions at Vice President level and above, a 360 degree performance evaluation and the CEO's approval are required. High performing employees are eligible for their first promotion, from "expert" to "administrator" after three years and after another four years can be promoted from "supervisor" to "manager".

## MANAGEMENT AND CORPORATE GOVERNANCE

### EXECUTIVE BOARD SUMMARY REPORT

Kuwait Turkish Participation Bank (KTPB), in 2006, had the strongest year in its 17 year history. In recognition of this, leading international credit rating agency, Fitch Ratings, raised KTPB's rating, awarding the Bank a long-term domestic currency rating of BB and a long-term foreign currency rating of BB, both with positive outlooks. These ratings, which are higher than the rating for sovereign debt, are clear indication of Fitch Ratings' confidence in the soundness and performance KTPB and its parent, Kuwait Finance House, Kuwait.

As of December 31, 2006, KTPB had total paid-in capital of YTL 200,188,000 and assets of US\$ 2.1 billion, giving the Bank a Capital Adequacy Ratio of more than 15 percent, well above the level required by the regulations. It was this sound financial structure that underpinned the impressive growth achieved in 2006, when assets rose by 25 percent and deposits rose by 24 percent, closing the year at US\$ 1.6 billion. The result was record year-end profits of US\$ 27.9 million, which came even as the Bank continued its rapid expansion, both of its branch network and its product range.

The KTPB branch network grew in 2006, adding a total of 11 new branches and bringing the total network to 78 branches spanning all of Turkey, with high levels of strategic concentration in Turkey's key centers of economic growth and activity: Istanbul, Ankara, Bursa, Kayseri and Konya. Employing a total of 1,392 staff, the branch network is KTPB's most valuable sales channel and a central factor in the strong image of professionalism, probity and expertise that the Bank presents to the public. The branch network also plays a crucial role in marketing and distributing KTPB's increasingly diverse range of financial products and services.

Innovation has always been a quality on which KTPB placed the utmost emphasis, an element in the corporate culture that has played a significant role in making the Bank a leader in interest-free finance in Turkey. KTPB, for instance, was the first to introduce a truly interest free plastic card with revolving credit, the SizCard. KTPB, in 2006, maintained this level of innovation, introducing "Esnaf Finans", a package of bundled financial services for Turkey's dynamic tradesmen and entrepreneurs. Thanks in part to its exciting products, the KTPB Retail Banking Division accounted for 30 percent of KTPB's total 2006 profits, a rate that is expected to increase every year. Growth and innovation, however, were not limited to the Retail Banking Division. In Corporate Banking, KTPB saw assets grow by 17 percent

to US\$ 1.8 billion, driven by strong relationships with existing customers and effective recruitment of new customers. International Banking also posted excellent results, building on KTPB's leading position in interest-free non-cash credits and the Bank's extensive network of 154 correspondents worldwide, as well as solidifying its dominant position in interest-free investment banking in Turkey. International structured murabaha facilities, an area that KTPB pioneered, was very productive in terms of transaction volume in 2006. The Investment Banking Department's most important achievement for the year was the US\$ 200 million syndicated facility the Department arranged for KTPB itself. This facility, which was oversubscribed by more than 160 percent, is the first of its kind in Turkey and has helped to open up a new era in Turkish interest-free finance.

In 2007, KTPB plans to continue building on the successes of 2006, with a major capital increase, which will raise total paid-in capital to YTL 260 million and shareholders' equity, exclusive of 2006 profits, to YTL 340 million. With this capital increase, the Bank's already outstanding capital adequacy ratio will rise even farther, giving KTPB the resources to step-up the speed of its expansion program. The branch network will be expanded by 15 branches, and the emphasis on new product development will be increased, as KTPB works to bring savers, investors and borrowers a broader range of products tailored to their needs and to the changing dynamics of Turkey's fast-growing economy. Of course, at the same time, KTPB will continue to emphasize alternative distribution channels and to set the pace of technological change and advancement among participation banks.

The Board of Directors are proud to have guided KTPB through a promising and prosperous year, but the contributions of the Bank's dedicated professionals and our other stakeholders have, as always, played a crucial role in KTPB's success. The Board would like to thank each of them for their role in the Bank's best year to date and wish them more success in the future.

Respectfully,

The Board of Directors

### RISK MANAGEMENT POLICIES

#### Market Risk Policy and Studies:

As part of the Market Risk Policy, Dealer, Stop-loss and Take Profit limits have been defined on a daily, monthly and annual basis and put into implementation.

#### Credit Risk Policy and Studies:

In order for Credit Risk to be calculated, accurate and reliable credit rating and scoring data are required. During 2006, in cooperation with the Bank's main shareholder, Kuwait Finance House, and its subsidiaries, credit risk modeling studies based on BASEL II have also been conducted. In conjunction with these studies, companies offering expert systems have made presentations and submitted bids to KTPB Risk Directorate executives. These solutions are being evaluated in coordination with the KFH Risk Group, and efforts to identify the most appropriate solution are currently underway. Credit limit and pricing models have been developed for inclusion in the Credit Risk Policy, and the Policy itself has been established and approved. Preliminary studies regarding the manner in which lending information should be recorded in order to provide an accurate Capital Adequacy Ratio in accordance with BASEL II have also been completed. During 2007, the final model for this will be established and implemented.

#### Operational Risk Policy and Studies:

The Operational Risk Policy and Implementation Procedures were established in 2006 and submitted to the Board of Directors in January of 2007 for their review and approval. Following approval by the Board, the Operational Risk Policy will be applied by the Audit and Inspection Unit and Internal Control Center in all risk related audits and inspections. During 2007, once the necessary division of responsibility between the Audit and Inspection Unit and the Internal Control Center has been established, it is planned to begin collecting operational data. An in-house software program has been developed to collect these data. When sufficient data has been compiled, the requisite analyses will be undertaken and a gap analysis study will be conducted. Work to quantify operational risk is being planned.



**BOARD OF AUDITOR'S REPORT**

**TO THE GENERAL ASSEMBLY OF SHAREHOLDERS OF KUWAIT TURKISH PARTICIPATION BANK INC.**

**THE BOARD OF AUDITORS' REPORT FOR THE YEAR 2006**

Having audited all the accounts and operations of Kuwait Turkish Participation Bank for the year 2006 with respect to the Turkish Commercial Code, the Articles of Incorporation of the Bank, and other related regulations; we have concluded that the Bank's Balance Sheet, Income Statement and the other records are duly in full conformity with the corresponding records and documents respectively.

Having given this decision we kindly request you to approve the Balance Sheet and Income Statement that were submitted by the Board of Directors, and we also consent to the proposal of the Board of Directors for disbursing the net profit.

Respectfully yours,

Auditor  
Prof. Dr. Sabahattin Zaim



Auditor  
Miktad Yetim



Auditor  
Ö. Asım Özgözükara



### FINANCIAL INFORMATION AND RISK MANAGEMENT POLICIES INTERNAL AUDIT AND RISK MANAGEMENT EVALUATION REPORT

Istanbul, February 28, 2007

#### THE ASSESSMENT OF INTERNAL SYSTEMS BY THE AUDIT COMMITTEE

The Audit Committee was established on October 26, 2006, based on Article 24 of the Banking Law, Number 5411 and consists solely of Non-Executive Board Members.

The units composing Internal Systems – Internal Audit, Internal Control and Risk Management – have been restructured by relaying their new internal regulations along with the views of the Internal Systems Board Member and the Audit Committee to the Board of Directors, which gave its approval on January 30, 2007 in accordance with the “Regulation on the Internal Systems of Banks” which went into effect on November 1, 2006.

Since that date, those units have continued to perform their duties on the basis of integrated risk management and risk-based auditing in an effective fashion as laid out in the Regulation and the Basel II Road Map.

Within the framework of the newly established organizational structure, the units composing Internal Systems will report regularly to the Internal Systems Board Member and the Audit Committee. Additionally, our Committee will hold assessment meetings with these units quarterly about the subjects mentioned in the “Audit Committee Regulation” of Kuwait Turkish Participation Bank.

Respectfully,

Azfar Hussain Qarni  
Audit Committee Member



Khaled N. Al Fouzan  
Audit Committee Member





## FINANCIAL INFORMATION AND RISK MANAGEMENT

### Financial Status, Profitability and Solvency Evaluation Report

Kuwait Turkish Participation Bank, as of year-end 2006, increased its assets by 25 percent to US\$ 2.1 billion and its shareholder's equity 17 percent to US\$ 191 million, yielding a capital adequacy ratio of 15.01 percent, which is well above the legally required limit. The bank will continue to use its resources effectively and to increase its profitability. Detailed information about the Bank's financial status, profitability and solvency can be found in the Independent Auditor's Report section of this Annual Report.

### Ratings Issued by International Rating Institutions

The ratings awarded by the international credit rating agency Fitch Ratings are a clear indication of Kuwait Turkish Participation Bank's excellent performance, quality, and strong capital structure.

#### Fitch Ratings

Foreign Currency		National	
Long-Term	BB	Long-Term	AA (tur)
Short-Term	B	Outlook	Stable
Outlook	Positive	Individual	D
		Support	3

Local Currency		Sovereign Risk	
Long-Term	BB+	Foreign Long-Term	BB-
Short-Term	B	Local Long-Term	BB-
Outlook	Positive	Outlook	Positive



**Kuwait Turkish Participation Bank Inc.**

Consolidated Financial Statements Together  
With Report of Independent Auditors  
December 31, 2006

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then 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 financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 2, 2007  
Istanbul, Turkey

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**  
**CONSOLIDATED BALANCE SHEET**  
**As at December 31, 2006**  
**(Currency – In thousands of New Turkish Lira - YTL)**

	Notes	2006	2005
<b>ASSETS</b>			
Cash and balances with central bank	3	79,098	119,472
Deposits with banks and financial institutions	3	306,051	283,617
Reserve deposits at the Central Bank	4	176,820	131,172
Financial investments – available – for - sale investments	5, 23	1,012	14,682
Due from financing activities, net	6, 23	2,076,968	1,506,392
Minimum financial lease payment receivable, net	7	163,547	160,595
Derivative financial instruments	17	63	25
Other assets	8	15,687	14,671
Construction projects, net	9	4,478	8,602
Investment properties, net	10	38,290	36,980
Property and equipment, net	11	68,787	64,578
Intangible assets, net	12	1,724	1,970
Deferred tax assets	15	18,909	18,909
<b>Total assets</b>		<b>2,951,434</b>	<b>2,361,665</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to other financial institutions and banks	13, 23	277,143	196,506
Current and profit / loss sharing investors' accounts	14, 23	2,375,761	1,920,611
Other liabilities	16	25,384	11,997
Provisions	16	2,537	1,893
Derivative financial instruments	17	487	60
Deferred tax liabilities	15	-	286
<b>Total liabilities</b>		<b>2,681,312</b>	<b>2,131,353</b>
<b>Shareholders' equity :</b>			
Share capital	18	200,188	200,188
Adjustment to share capital	18	-	22,703
Legal reserves and retained earnings	19	69,934	7,421
<b>Total shareholders' equity</b>		<b>270,122</b>	<b>230,312</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,951,434</b>	<b>2,361,665</b>

The policies and explanatory notes on pages 6 through 42 form an integral part of these consolidated financial statements.

**Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries**  
**CONSOLIDATED INCOME STATEMENT**  
**For the year ended December 31, 2006**  
**(Currency – In thousands of New Turkish Lira - YTL)**

	Notes	2006	2005
<b>Income from financing activities:</b>			
Profit / loss sharing accounts		175,010	111,641
Current accounts and equity		69,305	27,572
Profit on deposits with other banks and financial institutions		8,300	10,610
Profit on financial leases		16,977	21,029
<b>Total income from financing activities</b>		<b>269,592</b>	<b>170,852</b>
Profit shares distributed to participation accounts		(151,083)	(107,007)
Profit shares distributed to banks and financial institutions		(13,977)	(4,920)
<b>Total profit share expense</b>		<b>(165,060)</b>	<b>(111,927)</b>
<b>Net financing income</b>		<b>104,532</b>	<b>58,925</b>
Provision for impairment in due from financing activities and lease receivables, net	6, 7	(20,931)	(6,828)
<b>Net financing income after provision for impairment in due from financing activities and lease receivables</b>		<b>83,601</b>	<b>52,097</b>
Foreign exchange gain / (loss), net		8,764	9,198
<b>Net financing income after net foreign exchange gain / (loss)</b>		<b>92,365</b>	<b>61,295</b>
Fee and commission income	20	70,043	52,580
Income from construction projects, net		1,054	1,158
Net trading (expense) / income		1,991	9,223
Other income		4,992	6,771
<b>Total other operating income</b>		<b>78,080</b>	<b>69,732</b>
Fees and commission expense	20	(12,060)	(7,663)
Staff costs	24	(65,507)	(51,958)
Depreciation and amortization expense		(10,567)	(7,331)
Withholdings and other taxes		(3,608)	(2,286)
Rent expense		(8,191)	(6,188)
Other expenses	21	(30,841)	(31,308)
<b>Total other operating expense</b>		<b>(130,774)</b>	<b>(106,734)</b>
<b>Profit before income tax and monetary loss</b>		<b>39,671</b>	<b>24,293</b>
Deferred tax (charge) / credit	15	286	717
Gain / (loss) on net monetary position		-	(6,953)
<b>Net income for the year</b>		<b>39,957</b>	<b>18,057</b>

The policies and explanatory notes on pages 6 through 42 form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL)**

	Notes	Share Capital	Adjustment to Share Capital	Legal Reserves	Retained Earnings	Total
<b>Balances at 1 January 2005</b>		199,106	22,690	10,993	(20,385)	212,404
Transfer from retained earnings to share capital	18	1,082	13	-	(1,095)	-
Transfer from retained earnings to legal reserves		-	-	910	(910)	-
Netting of restatement effect of legal reserves against retained earnings		-	-	(7,318)	7,318	-
Dividends paid		-	-	-	(149)	(149)
Net income for the year	19	-	-	-	18,057	18,057
<b>Balances, at December 31, 2005</b>		200,188	22,703	4,585	2,836	230,312
Dividends paid	19	-	-	-	(147)	(147)
Transfer from retained earnings to legal reserves		-	-	1,509	(1,509)	-
Net income for the year		-	-	-	39,957	39,957
Transfer of adjustment to share capital to retained earnings		-	(22,703)	-	22,703	-
<b>Balances, at December 31, 2006</b>		200,188	-	6,094	63,840	270,122

The policies and explanatory notes on pages 6 through 42 form an integral part of these consolidated financial statements.

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

**CONSOLIDATED CASH FLOW STATEMENT**

**For the year ended December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL)**

	Notes	2006	2005
<b>Cash flows from operating activities:</b>			
Net profit before income tax and loss on net monetary position		39,671	24,293
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	10, 11, 12	10,567	7,331
Provision for employee termination benefits		644	707
Provision for impairment in due from financing activities and lease receivables	6,7	20,931	6,828
Reversal of impairment for property and equipment and investment properties due to disposal, net	10, 11	(2,587)	(4,817)
Provision for impairment in available for sale investments, other assets and construction projects	5, 9	1,317	2,778
Income from funds invested		(25,494)	(15,258)
Profit share accrual		(4,719)	9,387
Income accrual from deposits at the Central Bank of Turkey		(766)	157
Expense accrual on funds borrowed		3,329	2,082
Net change in derivative financial instruments		389	(585)
Loss / (gain) on sale of property and equipment, intangible assets and investment properties		(1,028)	894
Gain on sale of investment securities		(433)	(563)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>41,821</b>	<b>33,234</b>
Net changes in :			
Blocked balance of cash and cash equivalents	3	-	4,419
Reserve deposits at the Central Bank of Turkey	4	(44,882)	(8,912)
Due from financing activities	6	(566,013)	(618,312)
Minimum financial lease payment receivables	7	(2,952)	9,408
Other assets and construction projects		2,031	(1,452)
Current accounts and profit/loss sharing investors' accounts	14	459,869	654,005
Other liabilities and provisions		13,387	(10,456)
<b>Net cash provided by/ (used in) operating activities</b>		<b>(96,739)</b>	<b>61,934</b>
<b>Cash flows from investing activities:</b>			
Proceeds from the sale of investment securities	5	14,049	27,355
Purchase of investment securities	5	(184)	(6,516)
Purchase of property and equipment, intangible assets and investment properties	10, 11, 12	(18,010)	(14,099)
Proceeds from sale of property and equipment, intangible assets and investment properties	10, 11, 12	5,782	8,046
<b>Net cash provided by investing activities</b>		<b>1,637</b>	<b>14,786</b>
<b>Cash flows from financing activities:</b>			
Dividends paid		(147)	(149)
Proceeds from other financial institutions and banks		271,440	164,602
Payments to other financial institutions and banks		(194,131)	(21,130)
<b>Net cash provided by financing activities</b>		<b>77,162</b>	<b>143,323</b>
<b>Net increase in cash and cash equivalents</b>		<b>(17,940)</b>	<b>220,043</b>
Effect of monetary loss on cash and cash equivalent		-	(14,821)
Cash and cash equivalents at the beginning of the year	3	403,089	197,867
<b>Cash and cash equivalents at the end of the year</b>	<b>3</b>	<b>385,149</b>	<b>403,089</b>
Financing income received		244,098	170,834
Profit share paid		160,391	102,539

The policies and explanatory notes on pages 6 through 42 form an integral part of the consolidated financial statements.



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

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira – YTL unless otherwise indicated)**

#### **1. CORPORATE INFORMATION**

##### **General**

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate parent 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 approved by the Board of Directors of the Bank on March 2, 2007. 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, 2006, the Bank has 78 branches and 1 off-shore branch (December 31, 2005 - 67 branches and 1 off-shore branch) that are principally engaged in collecting funds through current and profit/loss sharing accounts, and disbursing funds to the customers. As at December 31, 2006, the Bank has 1,392 employees (December 31, 2005 - 1,265 employees).

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 99.9% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is 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.

The Bank's other subsidiary, Auto Land Otomotiv San. ve Tic. A.Ş. ("Auto Land"), in which the Bank has 99.9% shareholding was established in April 6, 2004 in Turkey. Auto Land's registered address is Basın Ekspres Yolu, B Blok, No:5 Halkalı/İstanbul. Auto Land is engaged in purchase sale and lease transactions in automotive industry.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **2.1 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 on the historical cost convention except for derivative financial instruments, financial assets at fair value through profit or loss and available for sale investments that have been measured at fair value.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Bank and its 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. The consolidated financial statements have been prepared from the statutory financial statements of the Bank and its subsidiaries in New Turkish Lira (YTL) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of consolidation of subsidiaries, reserve for impairment in financial assets and impairment for assets.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Bank could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Bank could return or settle the same values of equity to its shareholders.

**2.2 Changes in accounting policies**

The accounting policies adopted are consistent with those previous financial year except as follows:

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations had no material effect as at December 31, 2006 and 2005.

- ⇒ IAS 1 and IAS 19 Amendment – *Actuarial Gains and Losses, Group Plans and Disclosures*
- ⇒ IAS 21 Amendment – *The Effects of Changes in Foreign Exchange Rates*
- ⇒ IAS 39 Amendment – *Cash Flow Hedge Accounting of Forecast Intra-group Transactions*
- ⇒ IAS 39 Amendment – *The Fair Value Option*
- ⇒ IAS 39 and IFRS 4 Amendment – *Financial Guarantee Contracts*
- ⇒ IFRS 6 – *Exploration for and Evaluation of Mineral Resources*
- ⇒ IFRIC 4 – *Determining whether an Arrangement Contains a Lease*
- ⇒ IFRIC 5 – *Rights to Interests arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds*
- ⇒ IFRIC 6 – *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

The restatement for the changes in the general purchasing power of YTL as of December 31, 2005 was based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. Determining whether an economy is hyperinflationary in accordance with IAS 29 requires judgment as the standard does not establish an absolute rate, instead it considers the following characteristics of the economic environment of a country to be strong indicators of the existence of hyperinflation : (a) the general population prefers to keep its wealth in non monetary assets or in a relatively stable currency; amounts of local currency held are immediately invested to maintain purchasing power, (b) the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable currency; prices may be quoted in that currency, (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, (d) interest rates, wages and prices are linked to a price index and (e) the cumulative inflation rate over three years is approaching or exceeds 100%. Although as of December 31, 2005 the three-year cumulative rate has been 35.6% based on the Turkish countrywide wholesale price index published by the State Institute of Statistics, considering the economic characteristics indicated above, IAS 29 was continued to be applied in the preparation of the 2005 financial statements until the positive trends are confirmed as "other than temporary". This was also consistent with the conclusion of the International Practices Task Force of American Institute of Certified Public Accountants (AICPA) for reporting purposes under generally accepted accounting principals in the United States of America. Based on the trends on developments, Turkey came off hyperinflationary status effective from January 1, 2006.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Index and conversion factors for the three years ended December 31, 2005 are given below:

Dates	Index	Conversion Factors
December 31, 2002	6,478.80	1.3561
December 31, 2003	7,382.10	1.1901
December 31, 2004	8,403.80	1.0454
December 31, 2005	8,785.74	1.0000

The financial statements for the period before January 1, 2006 were adjusted for inflation effects based on IAS 29 in order to present the changes in the purchasing power of YTL. Therefore, IAS 29 application effected the consolidated financial statements as follows :

- non-monetary assets and liabilities were stated by applying, to the initial acquisition cost the change in general price index from the date of acquisition or initial recording until December 31, 2005. The components of shareholders' equity are restated by applying the applicable general price index from the dates the components are contributed or otherwise arose until December 31, 2005. All items in the income statement for the year ended December 31, 2005 are restated by applying appropriate monthly average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets.

#### *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 1 January 2007 or later periods but which the Group has not early adopted, as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures** (effective for financial years beginning on or after 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is in the process of assessing the impact this new standard will have on its financial statements.

- **IFRS 8, Operating Segments** (effective for financial years beginning on or after 1 January 2009)

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group is in the process of assessing the impact this new standard will have on its financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- **IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** (effective for financial years beginning on or after 1 March 2006)

IFRIC 7 requires entities to apply *IAS 29 Financial Reporting in Hyperinflationary Economies* in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary.

IFRIC 7 is not relevant to the Group's operations.

- **IFRIC 8, Scope of IFRS 2** (effective for financial years beginning on or after 1 May 2006).

IFRIC 8 clarifies that IFRS 2 *Share-based payment* will apply to any arrangement when equity instruments are granted or liabilities (based on the value of an entity's equity instrument) are incurred by an entity, when the identifiable consideration appears to be less than the fair value of the instruments given.

IFRIC 8 is not relevant to the Group's operations.

- **IFRIC 9, Reassessment of Embedded Derivatives** (effective for financial years beginning on or after 1 June 2006)

IFRIC 9 requires an entity to assess whether a contract contains an embedded derivative at the date an entity first becomes a party to the contract and prohibits reassessment unless there is a change to the contract that significantly modifies the cash flows.

IFRIC 9 is not relevant to the Group's operations.

- **IFRIC 10, Interim Financial Reporting and Impairment** (effective for financial years beginning on or after 1 November 2006).

This Interpretation may impact the financial statements should any impairment losses be recognised in the interim financial statements in relation to available for sale equity investments, unquoted equity instruments

carried at cost and goodwill as these may not be reversed in later interim periods or when preparing the annual financial statements.

- **IFRIC 11, IFRS 2-Group and Treasury Share Transactions** (effective for financial years beginning on or after 1 March 2007)

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent.

IFRIC 11 is not relevant to the Group's operations.

- **IFRIC 12, Service Concession Arrangements** (effective for financial years beginning on or after 1 January 2008)

The interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the on infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Group's operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Reclassifications of Comparative Figures**

The Bank and its Subsidiaries have made reclassifications in the consolidated balance sheet as of December 31, 2005 and in the consolidated income statement for the year ended December 31, 2005 to be consistent with the current year presentation. The reclassifications are as follows:

- YTL 25 representing derivative financial instruments has been reclassified from other assets to derivative financial instruments
- YTL 11,935 representing investment properties acquired in satisfaction of funds disbursed and held for resale has been reclassified from other assets to investment properties
- YTL 4,388 representing net trading income has been reclassified from other income to net trading income
- YTL 60 representing derivative financial instruments has been reclassified from other liabilities to derivative financial instruments
- YTL 1,801 representing a provision provided for an other asset item has been reclassified from provisions to other assets

**2.4 Summary of Significant Accounting Policies**

**Significant Accounting Judgments and Estimates**

The preparation of the 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 profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Management do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements are deferred tax asset, impairment losses on due from financing activities and pensions which are discussed in the relevant sections of this note below.

**Consolidation of Subsidiaries**

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2006 and December 31, 2005 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2006 and 2005, respectively. Subsidiaries are all 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 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.

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Details of the subsidiaries subject to consolidation are stated below :

Name of subsidiaries	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2006	December 31, 2005
Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez Gayrimenkul")	Turkey	100%	100%
Auto Land Otomotiv Sanayi ve Ticaret A.Ş. ("Auto Land")	Turkey	100%	100%

#### 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. All differences are taken to the income statement as foreign exchange gain/(loss).

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

Dates	USD/YTL	EUR/YTL
December 31, 2005	1,3430	1,5904
December 31, 2006	1,4131	1,8586

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment.

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. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditures incurred that have resulted in an increase in which the future economic benefits expected from the use of property and equipment are capitalized as an additional cost of property and equipment.

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

Buildings	50 years
Furniture and office equipment	3-50 years
Motor vehicles	4-5 years
Leasehold improvements	5-50 years

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Construction Projects**

The Bank has classified its time sharing houses, which are owned by its subsidiary, under construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated by selling price in the ordinary course of business less estimated costs necessary to make the sale.

**Investment Properties**

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Bank and its subsidiaries 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 is calculated on a straight-line basis over the estimated useful lives of 50 years.

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 period/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 of 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 and intangible assets 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Assets**

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; due from financing activities and available-for-sale financial assets. The Bank determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value, including directly attributable incremental acquisition charges associated with the investment except financial assets or liabilities at fair value through profit and loss. 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 Investments***

Available for sale investments 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 securities are subsequently carried at fair value. Unrealized gains and losses are recognized directly in equity. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Income earned on available-for-sale investments, which are carried at cost less any impairment is reported as profit share income. Dividends received are included in dividend income, if any.

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. For investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried cost less any impairment.

***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.

***Due from Financing Activities, net***

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as due from financing activities and are carried at amortized cost. 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 yield of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derivative Financial Instruments**

The Bank enters into transaction 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 Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, 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 income statement.

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the balance sheet date. The resulting gain or loss is reflected to the income statement.

**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.

**Recognition and Derecognition of Financial Instruments**

The Bank and its Subsidiaries recognize a financial asset or financial liability in their balance sheet when and only when they become a party to the contractual provisions of the instrument.

The Bank and its Subsidiaries derecognize a financial asset (or, where applicable a part of a financial asset or part of a Bank and its Subsidiaries of similar financial assets) where:

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

Where the Bank and its subsidiaries have transferred their rights to receive cash flows from an asset and have 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 Bank and its Subsidiaries continuing involvement in the asset.

The Bank and its subsidiaries derecognize 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 derecognizing of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of Financial Assets**

**a) *Assets carried at amortized cost***

The Bank and its Subsidiaries assess 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 Bank and its Subsidiaries 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 Bank 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 is becoming 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 Bank.

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 use of an allowance account. The amount of the loss is recognized in income statement. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank and its Subsidiaries first assess 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 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 income statement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

As a Participation Bank, the Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credits 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 losses that are funded by the corresponding profit or loss participation accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

**b) *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.

**c) *Available-for-sale financial assets***

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 in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, 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.

**Current Accounts and Profit Loss Sharing Investors' Accounts**

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost. After initial recognition, all profit share liabilities are recognized considering the part of attributable profit on credits granted including the amounts repaid and losses attributable. Losses attributable to profit loss sharing investors accounts 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 received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using effective yield method. Amortized cost is calculated by taking into account any discount or premium.

**Employee Benefits**

The Bank and its Subsidiaries have both defined benefit and defined contribution plans as described below:

**(a) *Defined Benefit Plans:***

In accordance with existing social legislation in Turkey, the Bank and its Subsidiaries are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Bank and its Subsidiaries 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Defined Contribution Plans:**

For defined contribution plans the Bank and its Subsidiaries pay contributions to publicly administered Social Security Funds on a mandatory basis. The Bank and its Subsidiaries have no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

**Provisions**

Provisions are recognized when the Bank and its Subsidiaries have 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 interest expense.

**Leases**

*Finance leases as lessor*

As a Participation Bank, the Bank is also involved in financial leases (as a lessor). The Bank presents leased assets as a receivable equal to the net investment in the lease. Profit share 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 finance lease receivable and reduce the amount of income recognized over the lease term.

*Operating leases as lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to period of notice. 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 year in which the termination takes place.

**Income and Expense Recognition**

Credit card commissions are recognized on a straightline basis when the service has been provided. Commission income and fees for various banking services (such as money transfers, granting short-term letters of guarantee and letters of credit) are recorded as income at the time when service is given.

Income from funds invested from current accounts and equity is recognized on accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is distributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and 60% - 90% of this income is recorded as expense for the profit shares distributed (as this is the legal and contractual range for the profit share quotas).

Dividends are recognized when the shareholders' right to receive the payments is established.

Borrowing costs are expensed as incurred.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Tax**

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

***Current tax***

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. As of December 31, 2006, the Bank and its Subsidiaries do not have any current tax expense.

***Deferred tax***

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 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 for its customers are not included in the balance sheet, since such items are not treated as assets of the Bank.

**Subsequent Events**

Post year-end events that provide additional information about the Bank and its subsidiaries 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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

3. CASH AND BALANCES WITH BANKS

	2006	2005
Cash on hand	62,132	54,082
Balances with the Central Bank	16,966	65,390
<b>Cash and balances with the Central Bank</b>	<b>79,098</b>	<b>119,472</b>
Balances with foreign banks	224,606	178,810
Balances with domestic banks	74,404	98,772
Current accounts in special finance houses	7,041	6,035
<b>Balances with banks and other financial institutions</b>	<b>306,051</b>	<b>283,617</b>
<b>Cash and cash equivalents in the cash flow statement</b>	<b>385,149</b>	<b>403,089</b>

As of December 31, 2006 and 2005, time deposits with banks and financial institutions, which have maturities less than a month are as follows:

	2006				2005			
	Amount		Effective profit rate		Amount		Effective profit rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Deposits with other banks and financial institutions	-	209,782	-	4.95	45,000	172,626	13.75	3.86
<b>Total</b>	<b>-</b>	<b>209,782</b>	<b>-</b>	<b>-</b>	<b>45,000</b>	<b>172,626</b>	<b>-</b>	<b>-</b>

4. RESERVE DEPOSITS AT THE CENTRAL BANK OF TURKEY

	2006		2005	
	Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
US\$	445,399	629	445,271	598
EUR	93,830,114	174,393	82,101,358	130,574
YTL	-	1,798	-	-
	<b>-</b>	<b>176,820</b>	<b>-</b>	<b>131,172</b>

As of December 31, 2006, the interest rate applied for New Turkish Lira, US\$ and Euro reserve deposits are 13.12%, 2.52% and 1.70% (December 31, 2005 - 10.25%, 2.03% and 1.14%), respectively.

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.

As of December 31, 2006 and 2005, reserve deposit rates are 6% and 11% for YTL and foreign currency deposits, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**5. FINANCIAL INVESTMENTS**

Available for sale – at cost

	2006	2005
Participation funds (**)	707	14,310
Unlisted (*)	305	372
<b>Total available for sale assets</b>	<b>1,012</b>	<b>14,682</b>

(\*) The breakdown of unlisted available for sale securities are as follows :

	Nature of business	2006		2005	
		%	Amount	%	Amount
Islamic Rating Agency	Financial information	15.54	30.5	7.41	134
Others	-	-		-	238
			<b>30.5</b>		<b>372</b>

(\*\*) Participation funds represent investments in profit sharing account with Islamic Development Bank in the amount of US\$ 500,000 (December 31, 2005 - US\$ 13,000,000). The amount includes the profit share incurred as of December 31, 2006 on an accrual basis.

The Bank does not have any financial assets at fair value through profit and loss as of December 31, 2006 and 2005.

The movement in available for sale securities may be summarized as follows:

<b>Available for Sale Securities</b>	2006	2005
At the beginning of the period/year	14,682	26,648
Exchange differences and monetary gain (loss) for 2005 on monetary assets	832	(1,158)
Additions	184	6,946
Disposals (sale and redemption)	(14,448)	(17,564)
Impairment losses (Note 21)	(238)	(190)
<b>Balance at the end of the period / year</b>	<b>1,012</b>	<b>14,682</b>

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

6. DUE FROM FINANCING ACTIVITIES, NET

	2006	2005
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	1,284,146	1,293,998
Funds invested from current accounts and equity	706,358	142,102
Income accruals on due from financing activities	55,523	30,030
	<b>2,046,027</b>	<b>1,466,130</b>
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	65,606	55,470
Funds invested from current accounts and equity	45,985	32,339
	<b>111,591</b>	<b>87,809</b>
<b>Total</b>	<b>2,157,618</b>	<b>1,553,939</b>
<b>Impairment allowance</b>		
Funds invested from profit / loss sharing accounts foreign currency	(35,266)	(18,869)
Funds invested from current accounts and equity	(29,280)	(10,335)
Funds invested from profit / loss sharing accounts – YTL	(16,104)	(18,343)
	<b>(80,650)</b>	<b>(47,547)</b>
<b>Total due from financing activities</b>	<b>2,076,968</b>	<b>1,506,392</b>

Movement in impairment allowance for funds disbursed is as follows :

	2006	2005
Balance at the beginning of the period/year	47,547	97,947
Provisions - participation accounts	42,366	10,230
Provisions - bank	19,705	5,582
Recoveries of amounts previously provided for	(26,505)	(9,180)
Reserves written off in current period (*)	(2,463)	(49,293)
Monetary gain/loss	-	(7,739)
<b>Balance at the end of the period / year</b>	<b>80,650</b>	<b>47,547</b>

(\*) In 2006, the non-performing credits for which a 100% provision was set amounting to YTL 2,463 were written off (2005 – YTL 49,293).

The nominal value of collaterals obtained from customers for the due from financing activities as of December 31, 2006 and 2005 constituting blocked cash, collaterals and guarantee letters, etc. amounts to YTL 1,266,010 and YTL 472,555 respectively.



Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

7. MINIMUM FINANCIAL LEASE PAYMENT RECEIVABLE, NET

	2006	2005
Gross investment in finance leases	183,721	174,616
Unearned finance income	(27,460)	(27,753)
Total impaired receivables	14,466	24,743
Impairment allowance	(7,180)	(11,011)
<b>Minimum lease payment receivable, net</b>	<b>163,547</b>	<b>160,595</b>

Movements in the impairment allowance

	2006	2005
Balance at the beginning of the period/year	11,011	26,383
Provisions - participation accounts	3,126	2,803
Provisions - Bank	1,226	1,246
Recoveries of amounts previously provided for	(1,879)	(4,674)
Reserves written off in current year (*)	(6,304)	(12,709)
Monetary gain/loss	-	(2,038)
<b>Balance at the end of the period / year</b>	<b>7,180</b>	<b>11,011</b>

(\*) In 2006, the non-performing minimum lease payments receivables which are fully provisioned amounting YTL 6,304 were written off (2005 – YTL 12,709 ).

Gross investment in finance leases as to their maturity :

	2006	2005
Not later than 1 year	109,635	107,289
Later than 1 year and not later than 5 years	86,766	88,410
Later than 5 years	1,786	3,660
<b>Minimum lease payment receivables, gross</b>	<b>198,187</b>	<b>199,359</b>
<b>Less : Unearned finance income</b>	<b>(27,460)</b>	<b>(27,753)</b>
Net investment in finance leases	170,727	171,606
Less : Reserve for impairment	(7,180)	(11,011)
<b>Minimum lease payments receivables, net</b>	<b>163,547</b>	<b>160,595</b>

As of December 31, 2006, YTL 163,269 (2005 - YTL 179,698) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2006	2005
Not later than 1 year	94,445	92,353
Later than 1 year and not later than 5 years	74,744	76,102
Later than 5 years	1,538	3,151
<b>Net investment in finance leases</b>	<b>170,727</b>	<b>171,606</b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**8. OTHER ASSETS**

Other assets comprise the following :

	2006	2005
Transitory accounts (*)	6,490	8,861
Value added tax (VAT) receivable	1,815	2,236
Receivable from assets sold with maturity	1,248	-
Inventory (mainly from Auto Land)	929	508
Other	5,205	3,066
	<b>15,687</b>	<b>14,671</b>

(\*) Includes mainly receivables from profit share investors, prepaid expenses and receivables from Central Bank.

**9. CONSTRUCTION PROJECTS, NET**

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

	2006	2005
Completed construction projects (inventories)	13,205	13,139
Receivables from construction projects	420	3,531
	<b>13,625</b>	<b>16,670</b>
(Less) Reserve for net realizable value (Note 21)	<b>(8,735)</b>	(7,499)
(Less) Reserve for doubtful receivables	(412)	(569)
<b>Total construction projects, net</b>	<b>4,478</b>	<b>8,602</b>

**10. INVESTMENT PROPERTIES, NET**

	2006	2005
Balance at the beginning of the period / year	36,980	40,756
Additions	4,426	372
Disposal (*)	(4,434)	(8,032)
Depreciation charge	(1,169)	-
Impairment provision	(200)	(709)
Reversal of impairment due to the disposal	2,687	4,593
<b>Balance at the end of the period / year</b>	<b>38,290</b>	<b>36,980</b>

(\*) In 2006 and 2005, the Bank sold investment property items for which there were impairment reserves of YTL 2,690 and YTL 4,593, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**10. INVESTMENT PROPERTIES, NET (continued)**

Out of YTL 38,290, an investment property (a building) amounting to YTL 23,784 (December 31, 2005 – YTL 24,673), is fully financed by Kuwait Finance House and due to the agreement signed, the rental income from this property is directly transferred to Kuwait Finance House in each quarter. The Bank obtained YTL 2,723 rent income from this property in 2006 (2005 – YTL 1,561) and directly transferred to Kuwait Finance House.

Fair value of the investment properties is YTL 40,750.

**11. PROPERTY AND EQUIPMENT, NET**

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Total
At January 1, 2005, net of accumulated depreciation and impairment	41,299	9,494	7,169	833	58,795
Additions	45	5,071	5,042	2,023	12,181
Disposals	-	(4)	-	(195)	(199)
Reversal of impairment	224	-	-	-	224
Depreciation charge for the year	(707)	(3,107)	(2,016)	(593)	(6,423)
At December 31, 2005 / January 1, 2006 net of accumulated depreciation and impairment	40,861	11,454	10,195	2,068	64,578
Additions	456	6,739	4,410	1,164	12,769
Disposals	(80)	(11)	-	(229)	(320)
Reversal of impairment	97	-	-	-	97
Depreciation charge for the year	(708)	(4,102)	(2,888)	(639)	(8,337)
<b>At December 31, 2006, net of accumulated depreciation and impairment</b>	<b>40,626</b>	<b>14,080</b>	<b>11,717</b>	<b>2,364</b>	<b>68,787</b>
At January 1, 2005					
Cost	44,416	26,972	9,469	2,876	83,733
Accumulated depreciation	(2,796)	(17,478)	(2,300)	(2,043)	(24,617)
Accumulated impairment	(321)	-	-	-	(321)
Net carrying amount	41,299	9,494	7,169	833	58,795
At December 31, 2005					
Cost	44,461	32,032	14,511	4,269	95,273
Accumulated depreciation	(3,503)	(20,578)	(4,316)	(2,201)	(30,598)
Accumulated impairment	(97)	-	-	-	(97)
Net carrying amount	40,861	11,454	10,195	2,068	64,578
<b>At December 31, 2006</b>					
Cost	44,837	38,760	18,922	4,386	106,905
Accumulated depreciation	(4,211)	(24,680)	(7,205)	(2,022)	(38,118)
Accumulated impairment	-	-	-	-	-
<b>Net carrying amount</b>	<b>40,626</b>	<b>14,080</b>	<b>11,717</b>	<b>2,364</b>	<b>68,787</b>

(\*)YTL 3,743 (net) and YTL 2,160 (net) of furniture and office equipment consist of assets obtained through leasing as of December 31, 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

11. PROPERTY AND EQUIPMENT, NET (continued)

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2006 and 2005 is as follows :

	2006	2005
Motor vehicles	3,097	2,847
Leasehold improvements	1,346	1,346
Furniture and office equipment	829	628
	<b>5,272</b>	<b>4,821</b>

12. INTANGIBLE ASSETS, NET

	Software
At January 1, 2005	1,332
Additions	1,546
Disposals	-
Amortization charge for the year	(908)
<b>At December 31, 2005 net of accumulated amortization</b>	<b>1,970</b>
Additions	815
Disposals	-
Amortization charge for the year	(1,061)
<b>At December 31, 2006, net of accumulated amortization</b>	<b>1,724</b>
At December 31, 2004	
Cost (gross carrying amount)	2,677
Accumulated amortization	(1,345)
<b>Net carrying amount</b>	<b>1,332</b>
At December 31, 2005	
Cost (gross carrying amount)	4,223
Accumulated amortization	(2,253)
<b>Net carrying amount</b>	<b>1,970</b>
At December 31, 2006	
Cost (gross carrying amount)	5,038
Accumulated amortization	(3,314)
<b>Net carrying amount</b>	<b>1,724</b>

The cost of intangible assets, which are fully amortized but still in use as of December 31, 2006 and 2005 is YTL 1,296 and YTL 835, respectively.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

13. DUE TO OTHER FINANCIAL INSTITUTIONS AND BANKS

Original Foreign Currency	Amount in YTL		Effective cost rate	
	2006	2005	2006	2005
US\$	218,660	158,252	6.66 %	5.02 %
Euro	58,483	38,254	4.46 %	3.25 %
<b>Total</b>	<b>277,143</b>	<b>196,506</b>		

As of December 31, 2006 and 2005, all borrowings of the Bank comprise short-term borrowings and have fixed effective cost rate.

14. CURRENT AND PROFIT LOSS SHARING INVESTORS' ACCOUNTS

	2006	2005
Current accounts:		
New Turkish lira	207,401	186,504
Foreign currency	356,054	223,130
	<b>563,455</b>	<b>409,634</b>
Profit/loss sharing investors' accounts:		
New Turkish lira	694,309	600,891
Foreign currency	1,094,231	885,169
	<b>1,788,540</b>	<b>1,486,060</b>
Blocked accounts:		
New Turkish lira	18,203	13,300
Foreign currency	894	2,229
	<b>19,097</b>	<b>15,529</b>
<b>Total current accounts and profit/loss investors' accounts</b>	<b>2,371,092</b>	<b>1,911,223</b>
Expense accrual on current accounts and profit/loss sharing investors' accounts	4,669(*)	9,388
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>2,375,761</b>	<b>1,920,611</b>

(\*) Decrease in expense accrual on current accounts and profit/loss sharing investors' accounts is due to deduction of participation share of current year provision charges.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**14. CURRENT AND PROFIT LOSS SHARING INVESTORS' ACCOUNTS (continued)**

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

	2006 (in YTL)			2005 (in YTL)		
	YTL	Foreign Currency	Total	YTL	Foreign Currency	Total
Up to 1 month	776,047	1,140,235	1,916,282	662,830	767,802	1,430,632
From 1 month to 3 months	89,459	173,529	262,988	76,224	159,614	235,838
From 3 months to 1 year	31,257	82,206	113,463	36,757	141,232	177,989
Over one year	23,150	55,209	78,359	24,884	41,880	66,764
	<b>919,913</b>	<b>1,451,179</b>	<b>2,371,092</b>	<b>800,695</b>	<b>1,110,528</b>	<b>1,911,223</b>

At December 31, 2006, foreign currency current and profit/loss sharing investors' accounts are as follows :

	2006		2005	
	Foreign currency (full)	YTL Equivalent	Foreign currency (full)	YTL Equivalent
Current accounts:				
US\$	171,372,532	242,167	111,934,475	149,198
Euro	58,600,554	108,915	46,334,884	72,917
Other		4,995	-	3,244
		<b>356,077</b>	-	<b>225,359</b>
Profit/loss sharing investors' accounts:				
US\$	473,324,098	668,854	358,385,726	549,602
Euro	229,338,104	426,248	168,498,677	335,567
Other		-	-	-
		<b>1,095,102</b>	-	<b>885,169</b>
		<b>1,451,179</b>	-	<b>1,110,528</b>

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.

As of December 31, 2006, current accounts and profit / loss sharing investors' accounts from other banks and financial institutions amounting to YTL 8,071 (2005 – YTL 8,530) comprise only current accounts. YTL 4,988 (2005 – YTL 3,074) of this balance is denominated in foreign currency.

Effective profit rates of profit loss sharing investors' accounts are listed as follows :

	2006	2005
New Turkish Lira	12.70 % - 18.25 %	16.30 % - 19.54 %
Foreign Currency	3.20 % - 5.56 %	3.01 % - 4.18 %

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

#### 15. INCOME TAXES

The Bank and its subsidiaries are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, the corporation tax rate for the fiscal year ending December 31, 2005 was 30%. Effective from January 1, 2006 corporate tax rate is reduced to 20%. Corporate tax returns are required to be filed by the fifteenth 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% (2005 - 30%) 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 2003 and prior years, corporation tax was computed on the statutory income tax base without any adjustment for inflation accounting. Starting from January 1, 2004, the statutory financial statements from which taxable income is derived are adjusted for inflation. Accumulated earnings arising from the first application of inflation accounting on the December 31, 2003 balance sheet are not subject to corporation tax, and similarly accumulated deficits arising from such application are not deductible for tax purposes. Moreover, accumulated tax loss carry-forwards related to 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years. Inflation accounting application has ceased effective from January 1, 2005.

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 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 incentive until the end of December 31, 2008. The Bank elected to utilize investment incentive allowance, therefore until the end of 2008 the corporate tax rate applicable to the Bank will be 30%.

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.

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.

	2006	2005
Current tax expense	-	-
Deferred tax benefit	286	717
<b>Total income tax benefit</b>	<b>286</b>	<b>717</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

15. 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 ended December 31, 2006 and 2005 is as follows :

	2006	2005
Net profit after monetary loss and before income tax	39,671	17,340
At Turkish statutory income tax rate of 30%	11,901	5,202
Effect of change in tax rate	(1,781)	-
Effect of income not subject to tax	(6,374)	(2,362)
Effect of expenditure not allowable for income tax purposes	1,103	731
Effect of restatement pursuant to IAS 29 and others,	(2,686)	(1,831)
Effect of investment incentive	(2,449)	(2,457)
Income tax benefit	(286)	(717)

Deferred income tax as of December 31, 2006 and 2005 is attributable to the following items :

	Deferred tax assets/(liabilities)	
	2006	2005
Accounting for finance leases	4,392	23,805
Provision for impairment in due from financing activities and investment in finance leases	-	119
Reserve for employment termination benefits	507	568
Effect of other temporary differences	1,030	1,414
Investment incentive	17,871	18,304
Bonus accrual of personnel	2,387	-
<b>Deferred tax assets</b>	<b>26,187</b>	<b>44,210</b>
Restatement of property and equipment, intangible assets and other non-monetary items	1,084	5,143
Provision for impairment in due from financing activities	2,206	886
Effect of other temporary differences	953	1,304
<b>Deferred tax liabilities</b>	<b>4,243</b>	<b>7,333</b>
<b>Deferred tax asset – net</b>	<b>21,944</b>	<b>36,877</b>
<b>Deferred tax asset not recognized (*)</b>	<b>(3,035)</b>	<b>(18,254)</b>
<b>Deferred tax asset - net</b>	<b>18,909</b>	<b>18,623</b>

(\*) The deferred tax assets arising on temporary differences have not been fully recognized as of December 31, 2006, on the basis that a portion amounting to YTL 3,035 (December 31, 2005 – YTL 18,254) will not be realized in the foreseeable future due to the taxable income generation projections of the Bank.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

15. INCOME TAXES (continued)

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

	2006	2005
Balance at the beginning of the year	18,623	18,718
Deferred income tax recognized in income statement	286	717
Monetary gain/loss	-	(812)
<b>Balance at the end of the period / year</b>	<b>18,909</b>	<b>18,623</b>

16. OTHER LIABILITIES AND PROVISIONS

	2006	2005
Personnel Bonus Accrual	7,956	-
Withholding tax and other tax payables	6,451	4,723
Deferred revenue	4,338	3,579
Security premium for participation funds	1,380	1,178
Payables to exporters and suppliers	1,310	1,264
Leasing payable	930	436
Deductions on resource usage fund	640	516
Other	2,379	301
<b>Total liabilities</b>	<b>25,384</b>	<b>11,997</b>
<b>Provisions</b>		
Employee termination benefits	2,537	1,893
<b>Total provisions</b>	<b>2,537</b>	<b>1,893</b>
<b>Total</b>	<b>27,921</b>	<b>13,890</b>

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

	2006	2005
Balance at January 1	1,893	1,585
Utilized / paid	(1,007)	(330)
Arising during the year	2,008	742
Actuarial gain / (loss)	(357)	(35)
Monetary gain/loss	-	(69)
<b>Balance at the end of the period / year</b>	<b>2,537</b>	<b>1,893</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

16. OTHER LIABILITIES AND PROVISIONS (continued)

*Reserve For Employee Termination Benefits*

In accordance with existing social legislation, the Bank and its subsidiaries are 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 YTL 1,857 (full) and YTL 1,727 (full) at December 31, 2006 and 2005, 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, 2006 and December 31, 2005, the Bank and its subsidiaries reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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

	December 31, 2006	December 31, 2005
Discount rate (%)	11	12
Expected salary increase rate (%)	5	6.175

17. 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 value of derivative financial instruments is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	2006							
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	63	-	446,676	446,676	-	-	-	-
Currency swap sale	-	487	447,206	447,206	-	-	-	-
	63	487	893,882	893,882	-	-	-	-
	2005							
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	25	-	34,488	34,488	-	-	-	-
Currency swap sale	-	60	34,432	34,432	-	-	-	-
	25	60	68,920	68,920	-	-	-	-

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

#### 18. SHARE CAPITAL

	2006	2005
Number of common shares, YTL 1 (2005: YTL 0.10), par value. Authorized and issued.	200,188,000	2,001.88 million

The movement of number of shares of the Bank is as follows :

	2006	2005
	Number	Number
At January 1	200,188,000	1,991,060,000
Shares issued in - bonus shares from retained earnings	-	10,820,000
At period/ year end	200,188,000	2,001,880,000

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

As of December 31, 2006 and 2005, the composition of shareholders and their respective % of ownership can be summarized as follows :

	2006		2005	
	Amount	%	Amount	%
Kuwait Finance House	124,586	62.2	124,586	62.2
Directorate of Vakıf Foundations, Turkey	37,473	18.7	37,473	18.7
The Public Institution for Social Security, Kuwait	18,017	9	18,017	9
Islamic Development Bank	18,017	9	18,017	9
Other	2,095	1.1	2,095	1.1
Historical amount	200,188		200,188	
Adjustment to share capital	-		22,703	
Total share capital	200,188		222,891	

Adjustment to share capital represents the restatement effect of the cash contributions and dividends reinvested to share capital. In 2006, the Bank has reclassified this balance to retained earnings.

In 2005, the Bank has increased its share capital from its reserves amounting YTL 1,082 (historical).

#### 19. LEGAL RESERVES, RETAINED EARNINGS, DIVIDENDS PAID AND PROPOSED

##### 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

In current year, the Bank has paid YTL 147 (2005 – YTL 149) dividend out of profit for 2005 to BOD members.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

20. FEES AND COMMISSION INCOME AND EXPENSE

	2006	2005
<b>Fees and commission income</b>		
Service commissions	29,406	22,223
Credit card fees and commissions	13,044	16,547
Letter of guarantee charges	9,637	2,994
Communication expense charges	6,838	4,744
POS commission income	4,048	1,269
Import letter of credit commissions	2,838	1,692
Income from agency activities	925	1,070
Other	3,307	2,041
<b>Total</b>	<b>70,043</b>	<b>52,580</b>
	2006	2005
<b>Fees and commission expense</b>		
Credit Card Machine and ATM Commission	1,532	983
Fees paid for credit card	9,235	5,654
Brokerage fees on borrowings	315	289
Other	978	737
<b>Total</b>	<b>12,060</b>	<b>7,663</b>

21. OTHER EXPENSES

	2006	2005
Impairment on asset held for resale	-	-
Impairment on available-for-sale securities	238	-
Impairment on investment property	200	709
Impairment on completed projects	1,235	-
<b>Impairment charges</b>	<b>1,673</b>	<b>709</b>
Insurance fund premium expense	5,381	1,280
Professional fees	3,840	4,268
Communication	3,738	3,117
Advertising expenses	3,466	7,455
Travel and representation expenses	2,352	2,756
Repair and maintenance expenses	2,150	979
Cleaning expense	1,423	1,009
Energy expenses	1,418	1,235
Stationary and subscription expenses	840	1,462
Insurance expense	421	360
Loss from sale of assets	134	799
Other	4,005	5,879
<b>Other expenses</b>	<b>29,168</b>	<b>30,599</b>
<b>Total</b>	<b>30,841</b>	<b>31,308</b>

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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#### 22. COMMITMENTS AND CONTINGENCIES

In the normal course of its banking activities, the Bank 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, 2006 and 2005:

	2006	2005
Letters of guarantee issued by the Bank	774,846	268,182
Letters of credit	260,379	82,310
Acceptance credits	13,668	5,555
Other guarantees	4	30
<b>Total</b>	<b>1,048,897</b>	<b>356,077</b>

Except for the Head-Office, and two 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.

Future minimum rental payables under operating leases are as follows :

	2006	2005
Within one year	8,274	5,593
After one year but not more than five years	17,854	14,318
More than five years	39	44
	<b>26,167</b>	<b>19,955</b>

#### Fiduciary Activities

Other than checks and notes received for collections in favor of the customers, the Bank and its subsidiaries do not have any fiduciary assets and those are not included in the accompanying financial statements. As of December 31, 2006, the amounts of the checks and notes are YTL 626,658 (December 31, 2005 – YTL 381,491) and YTL 166,889 (December 31, 2005 – YTL 102,139) respectively.

#### 23. 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, key management and members of the Bank's Board of Directors and their families.

The following significant balances invested as of December 31, 2006 and transactions have been entered into with related parties during the year then ended:

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**23. RELATED PARTY DISCLOSURES (continued)**

**i) Due from financial institutions :**

		2006		2005	
		Foreign Currency (full)	YTL equivalent	Foreign currency (full)	YTL equivalent
Kuwait Finance House {1}	Kuwaiti Dinar	842	5	1,097	5
	US\$	1,557,757	2,201	55,101	74
	BHD	14,999	56	31,461	112
			<b>2,262</b>		<b>191</b>

**ii) Available for sale investments and financial assets at fair value through profit and loss :**

		2006		2005	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (K.S.C.) {1}	US\$	-	-	5,085,417	6,830
Islamic Development Bank participation fund {1}	US\$	500,000	707	507,695	682
Kuwait Finance House (K.S.C.) {1}	Kuwaiti Dinar	-	-	-	-
			<b>707</b>		<b>7,512</b>

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

		2006		2005	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House, Bahrain {1}	US\$	15,940,830	22,526	12,276,923	16,488
Kuwait Finance House, Bahrain {*}	US\$	14,164,603	20,016	18,173,490	24,407
Other	US\$	2,102,500	2,991	12,147,325	16,399
			<b>45,533</b>		<b>57,294</b>

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

**iv) Profit/loss sharing investors' and current accounts :**

		2006		2005	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House {1}	EUR	8,037,489	14,939	2,303,346	3,663
Kuwait Finance House {1}	US\$	155,454	220	5,276,333	7,087
Kuwait Finance House {1}	YTL	-	133	-	133
Islamic Development Bank {1}	US\$	11,910	17	11,914	16
Islamic Development Bank {1}	YTL	-	144	-	144
Directorate of Vakıf Foundations, Turkey {1}	YTL	-	2,489	-	2,144
			<b>17,942</b>		<b>13,187</b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

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**23. RELATED PARTY DISCLOSURES (continued)**

**v) Profit shares distributed :**

		2006		2005	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US\$	117,947	167	376,768	506
Kuwait Finance House (1)	EUR	176,197	327	-	-
Directorate of Vakif Foundations, Turkey (1)	YTL	-	303	-	293
Other	US\$	364,031	518	773,384	1,054
			1,315		1,853

**vi) Non cash credits issued :**

		2006		2005	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US\$	5,212,120	7,365	1,037,230	1,393
Other	YTL	-	622	-	-
			7,987		1,393

(1) Shareholders.

**Directors' Remuneration**

The executive members of the Board of Directors and key management received remuneration totaling YTL 3,607 during year 2006 (December 31, 2005 - YTL 3,659). As of December 31, 2006 and 2005 termination benefits of the key management personnel is YTL 495 and YTL 89, respectively.

The key personnel of the Bank is listed as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman
Abdullah TIVNIKU	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. and Audit Committee Member
Osman Niyazi AKÇAY	B.O.D. Member
Kenan KARADENİZ	B.O.D. Member
Shaen H.A. KH: SH. ALGHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member - Responsible from Risk Management
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz KH E ALSALEH	B.O.D. Member

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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24. SALARIES AND EMPLOYEE BENEFITS

	2006	2005
<b>Staff costs</b>		
Wages and salaries	38,802	34,349
Bonus payment	7,956	2,635
Social security premiums	7,180	5,765
Other fringe benefits	5,455	4,921
Health expenses	2,720	1,744
Provision for employee termination benefits	1,651	707
Other	1,743	1,837
<b>Total</b>	<b>65,507</b>	<b>51,958</b>

The average number of employees for the years is :

	2006	2005
The Bank	1,343	1,175
Körfez Gayrimenkul	7	10
Auto Land	17	14
<b>Total</b>	<b>1,367</b>	<b>1,199</b>

25. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Banks activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Bank are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Bank. The Bank Risk Management supervises the risk management process of the Bank.

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

The Bank Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit 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 and the Audit Committee.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

Credit risk represents the risk generating from the counterparty not fulfilling its responsibilities stated in the agreement either partially or totally.

A customer's credit limit is defined according to financial performance of the customer and also the monitoring of credit risk is established accordingly.

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 Bank.

Due from financing activities (performing) excluding income accruals are listed per industry as follows :

	2006				2005			
	Cash	%	Non Cash	%	Cash	%	Non Cash	%
Textile and leather	320,630	16.1	120,588	11.5	243,186	16.9	46,831	13.2
Construction	154,613	7.8	420,509	40.1	84,357	5.9	138,443	38.9
Metal products	138,727	7.0	75,705	7.2	91,647	6.4	16,794	4.7
Food and beverage	125,492	6.3	49,124	4.7	144,797	10.1	40,824	11.5
Chemicals and petroleum	122,604	6.2	33,551	3.2	70,966	4.9	14,069	3.9
Automotive	113,010	5.7	33,682	3.2	73,318	5.1	7,108	2.0
Forestry	67,669	3.4	13,577	1.3	49,426	3.4	2,511	0.7
Health and social services	64,941	3.3	45,995	4.4	31,758	2.2	12,322	3.5
Electronics	46,726	2.3	58,594	5.6	21,433	1.5	27,058	7.6
Paper	42,250	2.1	6,099	0.6	33,837	2.4	1,148	0.3
Computer	14,839	0.7	15,650	1.5	18,029	1.3	1,649	0.5
Leasing	1,567	0.1	14,754	1.4	4,770	0.3	6,956	1.9
Other industries (*)	777,436	39.0	161,669	15.4	568,576	39.6	40,364	11.3
	1,990,504		1,049,497		1,436,100		356,077	
Income accruals	55,523		-		30,030		-	
Credits in arrears	111,591		-		87,809		-	
Provision for possible credit losses	(80,650)		-		(47,547)		-	
<b>Total</b>	<b>2,076,968</b>		<b>1,049,497</b>		<b>1,506,392</b>		<b>356,077</b>	

(\*) Other industries constitute of YTL 749,007 (December 31, 2005 – YTL 546,668) individual loans such as housing, automobile and etc.

The share of the Bank's receivables from its top 20 exposures of credit customers in its total due from financing activities portfolio is 9.7% (December 31, 2005 – 12.4%).

Maximum exposure of the Bank towards credit risk is disclosed in Notes 6 and 7.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To manage the risk, the financial liabilities of large customers are regularly assessed by the Bank. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

25. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2006

	Demand and less than 1 month	1 to 3months	3 to 12 months	Over 1 year	Unallocated	Total
Cash and balance with central bank	79,098	-	-	-	-	79,098
Deposits with banks and financial institutions	306,051	-	-	-	-	306,051
Reserve deposits at the Central Bank of Turkey	176,820	-	-	-	-	176,820
Investment securities available-for-sale	707	-	-	-	305	1,012
Due from financing activities, net	258,120	314,138	796,038	677,731	30,941	2,076,968
Minimum financial lease payment receivable, net	13,424	14,322	54,394	74,121	7,286	163,547
Derivative financial instruments	63	-	-	-	-	63
Other assets	11,373	-	-	-	4,314	15,687
Construction projects, net	-	-	-	-	4,478	4,478
Intangible assets, net	-	-	-	-	1,724	1,724
Investment property, net	-	-	-	-	38,290	38,290
Property and equipment, net	-	-	-	-	68,787	68,787
Deferred tax assets	-	-	-	-	18,909	18,909
<b>Total assets</b>	<b>845,656</b>	<b>328,460</b>	<b>850,432</b>	<b>751,852</b>	<b>175,034</b>	<b>2,951,434</b>
Due to other financial institutions and banks	23,317	53,712	180,098	20,016	-	277,143
Current and profit/loss sharing investors' accounts	2,049,576	223,974	100,552	1,659	-	2,375,761
Other liabilities	17,882	6,804	698	-	-	25,384
Provisions	-	-	-	2,537	-	2,537
Derivative financial instruments	487	-	-	-	-	487
Total shareholders' equity	-	-	-	-	270,122	270,122
<b>Total liabilities and equity</b>	<b>2,091,262</b>	<b>284,490</b>	<b>281,348</b>	<b>24,212</b>	<b>270,122</b>	<b>2,951,434</b>
<b>Net balance sheet liquidity gap</b>	<b>(1,245,606)</b>	<b>43,970</b>	<b>569,084</b>	<b>727,640</b>	<b>(95,088)</b>	<b>-</b>
<b>Net off-balance sheet liquidity gap</b>	<b>(531)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(531)</b>
<b>Total gap</b>	<b>(1,246,137)</b>	<b>43,970</b>	<b>569,084</b>	<b>727,640</b>	<b>(95,088)</b>	<b>(531)</b>

As at December 31, 2005

Total assets	734,313	263,607	627,240	564,100	172,405	2,361,665
Total liabilities and equity	1,578,314	302,713	220,612	27,535	232,491	2,361,665
<b>Net balance sheet liquidity gap</b>	<b>(844,001)</b>	<b>(39,106)</b>	<b>406,628</b>	<b>536,565</b>	<b>(60,086)</b>	<b>-</b>
<b>Net off-balance sheet liquidity gap</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58</b>
<b>Total gap</b>	<b>(843,943)</b>	<b>(39,106)</b>	<b>406,628</b>	<b>536,565</b>	<b>(60,086)</b>	<b>58</b>

Currency Risk

Exchange rate risk indicates the possibilities of the potential losses that the Bank is subject to due to the exchange rate movements in the market. The Bank does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated asset and liabilities.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

25.FINANCIAL RISK MANAGEMENT (continued)

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

December 31, 2006

	EUR	USD	OTHER	YTL	Total
Cash and balances with central bank	14,866	24,432	1,181	38,619	79,098
Deposits with banks and financial institutions	51,319	229,800	5,658	19,274	306,051
Reserve deposits at the Central Bank of Turkey	174,393	629	-	1,798	176,820
Investment securities					
- available-for-sale	-	1,012	-	-	1,012
Due from financing activities, net	360,746	659,458	-	1,056,764	2,076,968
Minimum financial lease payment receivable, net	64,272	76,447	-	22,828	163,547
Other assets	336	615	11	14,725	15,687
Construction projects, net	-	-	-	4,478	4,478
Intangible assets, net	-	-	-	1,724	1,724
Investment property, net	-	-	-	38,290	38,290
Property and equipment, net	-	47	-	68,740	68,787
Deferred tax assets	-	-	-	18,909	18,909
Derivative financial instruments	-	63	-	-	63
<b>Total assets</b>	<b>665,932</b>	<b>992,503</b>	<b>6,850</b>	<b>1,286,149</b>	<b>2,951,434</b>
Due to other financial institutions and banks	58,483	218,660	-	-	277,143
Current and profit/loss sharing investors' accounts	535,938	910,239	5,002	924,582	2,375,761
Income taxes payable	-	-	-	-	-
Other liabilities	265	1,065	-	24,054	25,384
Provisions	-	-	-	2,537	2,537
Derivative financial instruments	-	4	3	480	487
Total shareholders' equity	-	-	-	270,122	270,122
<b>Total liabilities and equity</b>	<b>594,686</b>	<b>1,129,968</b>	<b>5,005</b>	<b>1,221,775</b>	<b>2,951,434</b>
<b>Net Balance Sheet Position</b>	<b>71,246</b>	<b>(137,465)</b>	<b>1,845</b>	<b>64,374</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>(65,799)</b>	<b>104,388</b>	<b>1,340</b>	<b>(40,460)</b>	<b>(531)</b>
<b>As at December 31, 2005</b>					
Total Assets	489,661	808,607	2,439	1,060,958	2,361,665
Total Liabilities & Equity	448,249	855,386	10,756	1,047,274	2,361,665
<b>Net Balance Sheet Position</b>	<b>41,412</b>	<b>(46,779)</b>	<b>(8,317)</b>	<b>13,684</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>(22,148)</b>	<b>15,289</b>	<b>162</b>	<b>6,755</b>	<b>58</b>

Profit Rate Risk

The Bank invests funds for a pre-determined profit rate (Notes 6 and 7) and receives deposit on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Bank, rather than giving them a pre-determined rate of profit (Notes 13 and 14). Expected repricing and maturity dates do not differ significantly from the contractual dates. The table below summarises the effective average profit rate by major currencies for monetary financial instruments :

## Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

#### 25. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2006

Assets	US\$ %	EUR %	YTL %
Cash and due from banks (*)	5.14	3.06	-
Due from financing activities (*)	9.28	7.80	18.31
Investments finance in leases (*)	9.35	7.86	21.38
Liabilities			
Profit/loss sharing investors' accounts (**)	4.75	3.65	15.41
Due to other financial institutions and banks (*)	6.81	4.99	-

December 31, 2005

Assets	US\$ %	EUR %	YTL %
Cash and due from banks (*)	4.25	2.27	13.75
Due from financing activities (*)	7.70	7.20	18.64
Investments in leases (*)	8.30	7.50	20.41
Liabilities			
Profit/loss sharing investors' accounts (**)	3.96	3.15	17.93
Due to other financial institutions and banks (*)	5.02	13.25	-

(\*) Represent the fixed profit rate.

(\*\*) Represents the variable profit rate.

#### Market Risk

The profit rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to Value at Risk is taken into consideration by the standard method.

The Bank has determined market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Bank evaluates basic risks than can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management group and senior management have taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

#### Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (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, 2006 and 2005, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2006**

**(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)**

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Fair Values**

In 2005, fair values of due from financing activities and minimum financial lease receivables were considered to approximate their carrying values as the profit shares applicable to those receivables were in line with market rates which were sensitive to interest rates. In 2006, as a result of increasing interest rates in the market, fair value of financing and leasing receivables has been realized as YTL 1,996,896 whereas its carrying amount is YTL 2,202,287.

Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate to 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 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.

**27. SUBSEQUENT EVENTS**

Head Office signed a master murabaha agreement with ABC Islamic Bank on December 19, 2006 with respect to acquisition of revolving murabaha syndication loan amounting to USD 200,000,000. Related loan has been credited to Bank's accounts in February 2007.

## CONTACT INFORMATION

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**BRANCH NETWORK**

78 branches in Turkey

1 branch in Bahrain

1 representative office in Munich, Germany

**TOTAL PERSONNEL**

As of December 31, 2006, 1392 staff were employed at KTPB.



BRANCH ADDRESSES AND PHONE NUMBERS

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BRANCH ADDRESSES AND PHONE NUMBERS



BRANCH ADDRESSES AND PHONE NUMBERS

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