

**Kuveyt Türk
Evkaf Finans Kurumu
Anonim Şirketi**

**Consolidated Financial Statements
Together With
Report of Independent Auditors
December 31, 2005**

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi:

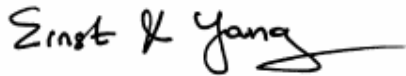
We have audited the accompanying consolidated financial statements of Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its subsidiaries (the Institution), which comprise the consolidated balance sheet as of December 31, 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Institution's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of the Institution as of December 31, 2005 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

As disclosed in Note 2 to the accompanying consolidated financial statements, the consolidated financial statements as of and for the year ended of December 31, 2004 have been restated to reflect the retroactive effect of the correction of an error made regarding to the inclusion of overdue leasing receivables to the consolidated financial statements.



March 8, 2006
Istanbul, Turkey

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

CONSOLIDATED BALANCE SHEET

As at December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004 (Restated)
ASSETS			
Cash and balances with central bank	3	119,472	39,685
Deposits with banks and financial institutions	3	283,617	162,601
Reserve deposits at the Central Bank of Turkey	4	131,172	128,028
Investment securities	5, 23	14,682	36,296
- available-for-sale investments		14,682	26,648
- financial assets at fair value through profit or loss		-	9,648
Due from financing activities, net	6, 23	1,506,392	936,129
Minimum financial lease payment receivable, net	7	160,595	177,537
Other assets	8	28,432	26,759
Construction projects, net	9	8,602	12,136
Investment properties, net	10	25,045	28,821
Property and equipment, net	11	64,578	58,795
Intangible assets, net	12	1,970	1,332
Deferred tax assets	15	18,909	19,768
Total assets		2,363,466	1,627,887
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to other financial institutions and banks	13, 23	196,506	54,811
Current and profit / loss sharing investors' accounts	14, 23	1,920,611	1,332,543
Other liabilities	16	12,057	23,666
Provisions	16	3,694	3,413
Deferred tax liabilities	15	286	1,050
Total liabilities		2,133,154	1,415,483
Shareholders' equity :			
Share capital	18	200,188	199,106
Adjustment to share capital	18	22,703	22,690
Legal reserves and retained earnings / (accumulated deficit)	19	7,421	(9,392)
Total shareholders' equity		230,312	212,404
Total liabilities and shareholders' equity		2,363,466	1,627,887

The policies and explanatory notes on pages 6 through 44 form an integral part of these consolidated financial statements.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004 (restated)
Income from financing activities:			
Profit/loss sharing accounts		111,641	87,159
Current accounts and equity		27,572	29,332
Profit on deposits with other banks and financial institutions		10,610	7,998
Profit on financial leases		21,029	18,544
Total income from financing activities		170,852	143,033
Profit shares distributed to participation accounts		(109,574)	(86,878)
Profit shares distributed to banks and financial institutions		(2,353)	(837)
Total profit share expense		(111,927)	(87,715)
Net financing income		58,925	55,318
Provision for impairment in due from financing activities and lease receivables, net	6, 7	(6,828)	(9,832)
Net financing income after provision for impairment in due from financing activities and lease receivables		52,097	45,486
Foreign exchange gain, net		9,198	2,276
Net income before other operating income and expense		61,295	47,762
Other Operating Income			
Fee and commission income	20	52,580	34,352
Income from construction projects, net		3,274	653
Net trading income	5	4,726	1,614
Other income		11,159	6,386
Total other operating income		71,739	43,005
Other Operating Expense			
Fee and commission expense	20	(7,663)	(6,622)
Salaries and employee benefits	24	(51,958)	(33,927)
Depreciation and amortization expense		(7,331)	(5,475)
Withholdings and other taxes		(2,286)	(3,898)
Rent expense		(6,188)	(4,049)
Losses from investment securities		(1,111)	-
Other expenses	21	(32,313)	(23,848)
		(108,850)	(77,819)
Income before income tax and loss on monetary position		24,184	12,948
Deferred tax benefit	15	717	2,932
Loss on net monetary position		(6,844)	(10,213)
Net income for the year		18,057	5,667

The policies and explanatory notes on pages 6 through 44 form an integral part of these consolidated financial statements.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Share Capital	Adjustment to Share Capital	Legal Reserves	Retained Earnings	Total
Balances at 1 January 2004 (restated)	95,310	30,467	8,008	(8,294)	125,491
Cash increase in share capital	77,432	4,238	-	-	81,670
Transfer from retained earnings to share capital	26,364	(12,015)	-	(14,349)	-
Transfer from retained earnings to legal reserves	-	-	2,985	(2,985)	-
Dividends paid	-	-	-	(424)	(424)
Net income for the period	-	-	-	5,667	5,667
Balances, at December 31, 2004 (restated)	199,106	22,690	10,993	(20,385)	212,404
Transfer from retained earnings to share capital	1,082	13		(1,095)	-
Transfer from retained earnings to legal reserves	-	-	910	(910)	-
Netting of inflation effect of legal reserves by retained earnings	-	-	(7,318)	7,318	-
Dividends paid	-	-	-	(149)	(149)
Net income for the year	-	-	-	18,057	18,057
Balances, at December 31, 2005	200,188	22,703	4,585	2,836	230,312

The policies and explanatory notes on pages 6 through 44 form an integral part of these consolidated financial statements.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004
Cash flows from operating activities:			
Net profit before income tax and loss on net monetary position		24,184	12,948
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:			
Depreciation and amortization	10, 11, 12	7,331	5,475
Reserve for employment termination benefits	16	707	557
Reserve for impairment in due from financing activities	6	6,828	9,832
Reversal of impairment for property and equipment and investment properties, net	10, 11	(4,817)	(2,132)
Reserve for available for sale investments, other assets and construction projects	5, 8, 9	2,778	2,993
Income taxes paid		-	(193)
Operating profit before changes in operating assets and liabilities		37,011	29,480
Increase in blocked balances of cash and cash equivalents	3	4,419	261
Increase in reserve deposits at the Central Bank of Turkey	4	(8,815)	(26,253)
Increase in due from financing activities	6	(633,570)	(364,070)
Decrease in minimum financial lease payment receivables	7	9,408	11,665
Increase in other assets and construction projects	8, 9	(1,392)	(272)
Increase in current accounts and profit/loss sharing investors' accounts	14	663,392	284,797
Decrease in other liabilities	16	(10,711)	17,570
Payment for employee termination benefits	16	(330)	(212)
Net cash provided by / (used in) operating activities		59,412	(47,034)
Cash flows from investing activities:			
Proceeds from the sale of investment securities	5	26,792	12,836
Purchase of investment securities	5	(6,516)	(34,316)
Purchase of property and equipment, intangible assets and investment properties	10, 11, 12	(14,099)	(35,885)
Proceeds from sale of property and equipment, intangible assets and investment properties	10, 11, 12	8,940	30
Net cash provided by / (used in) investing activities		15,117	(57,335)
Cash flows from financing activities:			
Increase in share capital		-	81,670
Dividends paid		(149)	(424)
Proceeds from other financial institutions and banks	13	166,684	55,070
Payments to other financial institutions and banks	13	(21,130)	(2,654)
Net cash provided by financing activities		145,405	133,662
Net increase in cash and cash equivalents		219,934	29,293
Effect of monetary loss on cash and cash equivalents		(14,712)	(26,072)
Cash and cash equivalents at the beginning of the year	3	197,867	194,646
Cash and cash equivalents at the end of the year	3	403,089	197,867
Profit share received		170,834	134,077
Profit share paid		102,539	91,250

The policies and explanatory notes on pages 6 through 44 form an integral part of the consolidated financial statements.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31,2005, unless indicated otherwise)

1. CORPORATE INFORMATION

General

Kuveyt Türk Evkaf Finans Kurumu A.Ş. (a Turkish joint-stock company-the Institution) 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 Institution obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Institution 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 Institution’s head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate parent of the Institution is Kuwait Finance House.

Due to the Banking Law No. 5411, dated November 1, 2005, the phrase “special finance house” must be changed as “Participation Bank” in the Institution’s commercial title. In the Board of Directors meeting held on March 8, 2006, it was resolved to change the Institution’s commercial title to include the phrase “participation bank” which is subject to the approval of the next Ordinary General Assembly of Shareholders.

The consolidated financial statements were approved by the Board of Directors of the Institution on March 8, 2006. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Institution and its Subsidiaries

At December 31, 2005, the Institution has 68 branches (2004 - 53 branches) that are principally engaged in collecting funds through current and profit/loss sharing accounts, and disbursing funds to the customers. As at December 31, 2005, the Institution has 1,265 employees (2004 - 948 employees).

The Institution’s subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. (“Körfez”), in which the Institution has 99.9% shareholding was incorporated in June 1996 according to the Turkish Commercial Code. Körfez’s head office is registered in Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey, including Güre Project, which comprises the construction of 199 “time-sharing” houses in Edremit-Balıkesir. Körfez’s main sources of revenue are from the sales of these projects and expert valuations carried for third parties.

The Institution’s other subsidiary, Auto Land Otomotiv San. ve Tic. A.Ş. (“Auto Land”), in which the Institution has 99.9% shareholding was established in April 6, 2004. Auto Land is located in Basın Ekspres Yolu, B Blok, No:5 Halkalı/İstanbul. Auto Land is engaged in purchase, sales and lease transactions in automotive industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Institution 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 the measurement at fair value of derivative financial instruments, trading and available for sale financial securities.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Institution and its subsidiaries 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 Institution and its subsidiaries and presented in accordance with IFRS 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 restatement for changes in the general purchasing power of New Turkish Lira, the effects of consolidation of subsidiaries, deferred taxation, reserve for financial assets, impairment for assets and employee termination benefits.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Institution has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

In summary:

IAS 1 (revised) “Presentation of Financial Statements” has affected the presentation of disclosures.

IAS 21 (revised) “The Effects of Changes in Foreign Exchange Rates” had no material effect on the Institutions policy.

IAS 24 (revised) “Related Party Disclosures” has affected the identification and definition of related parties and some other related party disclosures.

Moreover, the Institution had reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38 (revised). No adjustment resulted from this assessment.

IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, IAS 10 “Events After the Balance Sheet Date”, IAS 16 “Property, Plant and Equipment”, IAS 17 “Leases”, IAS 27 “Consolidated and Separate Financial Statements”, IAS 32 “Financial Instruments: Disclosure and Presentation”, IAS 39 “Financial Instruments: Recognition and Measurement” and IAS 40 “Investment Properties” (all revised) and IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” had no material effect on the Institution’s accounting policies.

IFRSs and IFRIC Interpretations Not Yet Effective

The Institution has not applied the IFRSs and IFRIC interpretations that have been issued but are not yet effective. In this context, the Institution expects that the adoption of IFRS 7 “Financial Instruments-Disclosures”, which supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after January 1, 2007 will impact the presentation of additional disclosures on financial instruments. Other than this, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, which is required to be applied for annual periods beginning on or after January 1,2006 is not expected to have an impact on the Institution’s financial statements in the period of initial application. The other pronouncements (IFRS 6 “Exploration for and Evaluation of Mineral Resources”, IFRIC 5 “Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”) are not relevant to the Institution’s operations.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Reclassifications of Comparative Figures

The Institution and its subsidiaries have made certain reclassifications in the consolidated financial statements as of December 31, 2004 to be consistent with the current year presentation. Major reclassifications are as follows:

- YTL 162,601 representing deposits has been reclassified from cash and cash equivalent to deposits with banks and financial institutions,
- YTL 9,648 representing common stocks in Kuwait Stock Exchange has been reclassified from available for sale securities to trading securities,
- YTL 1,138 representing intangible assets of the Institution has been reclassified from property and equipment to intangible assets,
- YTL 2,538 representing current accounts from banks and financial institutions has been reclassified from current accounts and profit / loss sharing investors' account to current accounts and profit / loss sharing investors' accounts from other banks & financial institutions,
- YTL 1,768 representing provision for tax lawsuit has been reclassified from other liabilities to provisions.
- YTL 7,998 income from foreign murabaha transactions has been reclassified to Profit on deposits with other banks and financial institutions from income from profit/loss sharing accounts.
- YTL 11,908 and YTL 6,636 income have been reclassified from profit income from profit/loss sharing accounts and profit income from current accounts equity, respectively to profit on financial leases.
- YTL 51,589 representing murabaha transactions of Bahrain Branch has been reclassified from due to the other financial institutions and banks to current accounts and profit / loss sharing investors' accounts
- YTL 1,164 income from financial trading of foreign common stocks has been reclassified from other income from profit/loss sharing to net trading income.

2.4 Restatement of Prior Year Financial Statements

The consolidated financial statements as of December 31, 2004 have been restated to reflect the retroactive effect of the correction of an error made in the inclusion of the overdue leasing receivables into the consolidated financial statements. The effect of such correction on the related account balances is as follows:

	Previously Reported	Restated	Restatement Effect
Overdue financial lease receivable	193,539	177,537	(16,002)
Accumulated deficit	(247)	(15,059)	(14,812)
Net income for the year (*)	6,857	5,667	(1,190)

(*) It was restated from monetary loss caption of the income statement.

2.5 Summary of Significant Accounting Policies

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 income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to 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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections of this note below.

Functional and Presentation Currency

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), the new currency unit for the Republic of Turkey being effective from January 1, 2005. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 throughout the one year period until complete phase-out of TL.

Effective from January 1, 2005, the Institution's functional and presentation currency is YTL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of YTL.

The restatement for the changes in the general purchasing power of YTL as of December 31, 2005 is 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% (December 31, 2004 - 69.7%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics, considering the economic characteristics indicated above, IAS 29 is continued to be applied in the preparation of the current period financial statements until the positive trends are confirmed as "other than temporary". This is also consistent with the conclusion of the Internal 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 current trends on developments, Turkey will come of hyperinflationary status effective from January 1, 2006.

Index and conversion factors are given below:

Dates	Conversion Factors	Index
December 31, 2002	6,478.80	1.3560
December 31, 2003	7,382.10	1.1901
December 31, 2004	8,403.80	1.0454
December 31, 2005	8,785.74	1.0000

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The main guidelines used for the above mentioned restatement are as follows :

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit at December 31, 2005.
- monetary assets and liabilities in the balance sheet as of December 31, 2005 are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- the inflation adjusted share capital amount has been derived by indexing cash contributions, transfers from retained earnings and income from sale of property from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of shareholders' equity are restated by applying the relevant conversion factors.
- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).
- all items in the income statement are restated by applying appropriate monthly average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortization).

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 Institution 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 Institution could return or settle the same values of equity to its shareholders.

Consolidation of Subsidiaries

The consolidated financial statements comprise the financial statements of the Institution and its subsidiaries, as at December 31, each year. Subsidiaries are all entities over which the Institution has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Institution 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 Institution controls another entity.

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

The financial statements of the subsidiaries are prepared for the same reporting year as the Institution, using consistent accounting policies.

All material balances and transactions between the Institution and subsidiaries are eliminated in the consolidated financial statements.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

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 Institution (%)	
		December 31, 2005	December 31, 2004
Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. (“Körfez Gayrimenkul”)	Turkey	99.9%	99.9%
Auto Land Otomotiv Sanayi ve Ticaret A.Ş. (“Auto Land”)	Turkey	99.9%	99.9%

Foreign Currency Translation

The consolidated financial statements are presented in YTL, which is the Institution’s functional and presentation currency. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain/(loss).

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

Dates	USD / YTL	EUR / YTL
December 31, 2004	1.3421	1.8268
December 31, 2005	1.3430	1.5904

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.

Land is not depreciated.

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

Buildings	50 years
Furniture and office equipment	3-50 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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying values of property and equipment 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 property and equipment 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.

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 year the asset is derecognized.

Properties Acquired in Satisfaction of Funds

Properties acquired in satisfaction of funds disbursed represent properties foreclosed and held for sale and they are included in other assets. These properties are stated at cost less impairment. For significant properties held for sale, impairment is determined by reference to valuation made by an independent expert based on the market price.

Investment Properties

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Institution is classified as investment property.

Investment property comprises buildings. Investment properties are stated at cost less any impairment in value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. 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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains or losses arising from derecognition 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.

Investments and Other Financial Assets

The Institution 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. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments, not at fair value through profit or loss, directly attributable transaction costs. The Institution determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value, including acquisition charges associated with the investment except financial asset 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 or as available for sale, the change in value is recognized through profit and loss. The Institution and its subsidiaries maintain two separate securities portfolio, as follows:

Available For Sale Securities

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 for which there is a quoted market price are subsequently carried at fair value. Available for sale securities for which there is no quoted market price are carried at cost less any impairment.

Profits earned on available-for-sale investments 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 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 Institution 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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Institution 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 Institution and its subsidiaries derecognize a financial asset (or, where applicable a part of a financial asset or part of a Institution and its subsidiaries of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Institution 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 Institution 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 Institution 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 Institution and its subsidiaries continuing involvement in the asset.

The Institution 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 derecognition 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

a) *Assets carried at amortized cost*

The Institution 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 Institution 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 Institution 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 Institution, 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 Institution.

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 Institution 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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a Special Finance House, the Institution's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Institution's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss participation accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Institution 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 Institution 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 Institution and its subsidiaries are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Institution 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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Defined Contribution Plans:

For defined contribution plans the Institution and its subsidiaries pay contributions to publicly administered Social Security Funds on a mandatory basis. The Institution 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 Institution 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 special finance house, the Institution is also involved in financial leases (as a lessor). The Institution 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 an accrual 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 date of collection.

Income from funds invested from current accounts and equity is recognised on accrual basis. Income from funds invested from profit/loss sharing accounts is recognised on accrual basis and the net income is distributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognised 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).

Fees for bank transfers and other banking services are recorded as income when collected.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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, 2005, the Institution 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.

Derivative Financial Instruments

The Institution 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 Institution'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.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Assets

Assets held by the Institution 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 Institution.

Subsequent Events

Post year-end events that provide additional information about the Institution 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.

3. CASH AND BALANCE WITH BANKS

	2005	2004
Cash on hand	54,082	39,181
Balances with the Central Bank	65,390	504
Cash and balances with the Central Bank	119,472	39,685
Balances with domestic banks	98,772	99,630
Balances with foreign banks	178,810	61,182
Current accounts in special finance houses	6,035	1,789
Balances with banks and other financial institutions	283,617	162,601
Cash and balances with banks	403,089	202,286
Less: Blocked balance	-	(4,419)
Cash and cash equivalents in the cash flow statement	403,089	197,867

As of December 31, 2005 and 2004, deposits with bank and financial institutions with a specific maturity are as follows:

	2005				2004			
	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	45,000	172,626	13.75	3.86	12,545	58,293	18.4	2.11
Total	45,000	172,626	-	-	12,545	58,293	-	-

(*) As of December 31, 2005, the Institution does not have any deposit that kept as compensating balance. (2004 - 4,419 YTL for the purpose of letter of guarantees given to the Institution's customer by a counterparty).

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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4. RESERVE DEPOSITS AT THE CENTRAL BANK OF TURKEY

	2005		2004	
	Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
US\$	445,271	598	60,746,337	85,233
EUR	82,101,358	130,574	11,358,670	21,693
TL	-	-	-	21,102
	-	131,172	-	128,028

As of December 31, 2005, the interest rate applied for New Turkish Lira, US\$ and Euro reserve deposits are 10.25%, 1.14% and 2.03% (2004 – 10%, 0.55% and 2.20%), respectively.

According to the regulations of the Central Bank of Turkey, banks and financial institutions 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 Institution's day to day operations.

As of December 31, 2005 and 2004, reserve deposit rates are 6% and 11% for YTL and foreign currency deposits, respectively.

5. INVESTMENT SECURITIES

Available for sale

	2005	2004
Unlisted (*)	372	14,722
Participation funds (**)	14,310	11,926
Total available for sale assets	14,682	26,648

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

	Nature of business	2005		2004	
		%	Amount	%	Amount
Islamic Rating Agency	Financial information	7.41	134	7.41	140
BİM Birleşik Mağazalar A.Ş. (BİM) (***)	Retail Marketing	-	-	2.40	14,154
Others	-	-	238	-	428
			372		14,722

(**) Participation funds represent investments in profit sharing account with Islamic Development Bank and Kuwait Finance Horse in the amount of US\$10,500,000 (2004 - US\$ 8,500,000). The amount includes the profit share incurred as of December 31 on an accrual basis.

(***) In 2005, the Institution sold its shares in BİM during the public offering of BİM and incurred a loss of YTL 1,111. In current year, before the sale of related shares, the Institution obtained YTL 465 dividend income from the shares and recorded as other income (2004 - nil).

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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5. INVESTMENT SECURITIES (continued)

Financial assets at fair value through profit and loss	2005	2004
Equity securities – listed (*)	-	9,648
Financial assets at fair value through profit and loss	-	9,648

(*) Include the common stocks traded in Kuwait Stock Exchange and the Institution disposed of its portfolio in 2005 and realized a gain amounting to YTL 4,726 in relation with such transactions. In 2004, the Institution had incurred YTL 1,614 profit from the trading operations of common stocks.

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

Available for Sale Securities	2005	2004
At January 1	26,648	6,082
Exchange differences and monetary gain (loss) on monetary assets	(1,158)	(207)
Additions	6,946	20,773
Disposals (sale and redemption)	(17,564)	-
Impairment losses	(190)	-
At December 31	14,682	26,648

6. DUE FROM FINANCING ACTIVITIES, NET

	2005	2004
Performing		
Funds invested from profit/loss sharing accounts	1,293,998	627,878
Funds invested from current accounts and equity	142,102	200,581
Income accruals on due from financing activities	30,030	30,012
	1,466,130	858,471
Funds in arrears (*)		
Funds invested from profit / loss sharing accounts	55,470	131,648
Funds invested from current accounts and equity	32,339	43,957
	87,809	175,605
Total	1,553,939	1,034,076
Impairment allowance		
Funds invested from current accounts and equity	(10,335)	(27,519)
Funds invested from profit / loss sharing accounts – YTL	(18,343)	(3,262)
Funds invested from profit / loss sharing accounts foreign currency	(18,869)	(67,166)
	(47,547)	(97,947)
Total due from financing activities	1,506,392	936,129

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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6. DUE FROM FINANCING ACTIVITIES, NET (continued)

Movement in impairment allowance for funds disbursed is as follows :

	2005	2004
Balance at 1 January	97,947	89,374
Provisions - Institution	5,582	11,877
Provisions - participation accounts	10,230	11,943
Recoveries of amounts previously provided for	(9,180)	(2,072)
Reserves written off in current period (*)	(49,293)	-
Monetary gain	(7,739)	(13,175)
Balance at the end of year	47,547	97,947

(*) In 2005, the non-performing credits for which a 100% provision was set amounting to YTL 49,293, were written off (2004 - nil).

7. MINIMUM FINANCIAL LEASE PAYMENT RECEIVABLE, NET

	2005	2004
Gross investment in finance leases	174,616	211,212
Unearned finance income	(27,753)	(38,913)
Total impaired receivables (*)	24,743	31,621
Impairment allowance	(11,011)	(26,383)
Minimum lease payment receivable, net	160,595	177,537

Movements in the impairment allowance

	2005	2004
Balance at 1 January	26,383	32,554
Provisions - Institution	1,246	(2,045)
Provisions - participation accounts	2,803	2,315
Recoveries of amounts previously provided for	(4,674)	(293)
Reserves written off in current year (*)	(12,709)	-
Monetary gain	(2,038)	(6,148)
Balance at the end of the year	11,011	26,383

(*) In 2005, the non-performing minimum lease payments receivables which are fully provisioned amounts to YTL 12,709 were written off (2004 - nil).

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7. MINIMUM FINANCIAL LEASE PAYMENT RECEIVABLE, NET (continued)

Gross investment in finance leases as to their maturity :

	2005	2004
Not later than 1 year	107,289	136,510
Later than 1 year and not later than 5 years	88,410	99,816
Later than 5 years	3,660	6,507
Minimum lease payment receivables, gross	199,359	242,833
Less : Unearned finance income	(27,753)	(38,913)
Net investment in finance leases	171,606	203,920
Less : Reserve for impairment	(11,011)	(26,383)
Minimum lease payments receivables, net	160,595	177,537

As of December 31, 2005, YTL 179,698 (2004 - YTL 230,112) of gross lease receivables are denominated in foreign currency (US\$ and EUR).

8. OTHER ASSETS

Other assets comprise the following :

	2005	2004
Transitory accounts (**)	10,662	11,047
Assets held for resale (in satisfaction of funds disbursed) (*)	11,933	10,514
Value added tax (VAT) receivable	2,236	2,348
Inventory (mainly from Auto Land)	508	658
Other	3,093	2,192
	28,432	26,759

(*) Represent buildings and other fixed assets held for resale which were taken over from customers who have defaulted in payments. They are carried at cost less impairment allowance amounting to YTL 3,803 (2004 - YTL 2,862) provided based on appraisal reports. Impairment losses recognized during the year is included in other expenses line in the consolidated income statement.

(**) Includes mainly receivables from profit share investors, prepaid expenses and receivables from Central Bank. Also, the Institution is the defender in a lawsuit with the tax office with respect to the tax obligations amounting to YTL 5,301 arising from export intermediary services carried out in 1995. The Institution made a payment to the tax office amounting to YTL 5,301 in 2002 while the Institution took the case to the Supreme Court. The Institution applied to the Court for benefiting from the tax amnesty law in 2003 and in April 2004, YTL 3,500 was repaid to the Institution as required by the tax amnesty law. As of December 31, 2004, the Institution established provision for the unpaid portion amounting to YTL 1,801 which was recorded in “transitory accounts” above; the Institution’s management believes that the Supreme Court’s ruling will probably be in favor of the Institution for the portion of YTL 3,500. The provision has been carried to December 2005 financial statement by the Institution (Note 16).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

9. CONSTRUCTION PROJECTS, NET

Construction projects mainly include the Güre Premises (time sharing houses) which belong to Körfez Gayrimenkul.

	2005	2004
Completed construction projects (inventories)	13,139	16,535
Receivables from construction projects	3,531	1,832
	16,670	18,367
(Less) Reserve for net realizable value	(7,499)	(5,066)
(Less) Reserve for doubtful receivables	(569)	(1,165)
Total construction projects, net	8,602	12,136

Impairment losses recognized during the year is included in other expenses in the consolidated income statement.

10. INVESTMENT PROPERTIES, NET

	2005	2004
As of January 01	28,821	9,096
Additions	372	24,740
Depreciation charge	-	(399)
Reversal of impairment due to the disposal	4,593	-
Disposal (*)	(8,741)	-
Impairment provision	-	(4,616)
As of December 31	25,045	28,821

(*) In 2005, the Institution sold two of its investment property items (buildings) for which there was an impairment reserve of YTL 4,593 in 2005.

Out of YTL 25,045, an investment property (a building) amounting to YTL 24,673 (December 31, 2004 - YTL 23,624), 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 Institution obtained YTL 1,561 rent income from this property in 2005 (there was no rent obtained in 2004 as the building acquired in December 31, 2004) and directly transferred to Kuwait Finance House. All rights and obligations of the property belong to Kuwait Finance House and therefore there is no depreciation charge on such assets.

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(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

11. PROPERTY AND EQUIPMENT, NET

	Land and buildings	Furniture and office equipment (***)	Leasehold improvements	Motor vehicles	Total
At January 1, 2004, net of accumulated depreciation and impairment	39,422	7,572	2,543	1,295	50,832
Additions	459	4,740	5,300	-	10,499
Disposals	-	(4)	-	(26)	(30)
Reversal of Impairment(**)	2,132	-	-	-	2,132
Depreciation charge for the year	(714)	(2,814)	(674)	(436)	(4,638)
At December 31, 2004/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, net of accumulated depreciation and impairment	40,861	11,454	10,195	2,068	64,578
At January 1, 2004					
Cost	43,966	22,624	4,168	2,939	73,697
Accumulated depreciation	(2,081)	(15,052)	(1,625)	(1,644)	(20,402)
Accumulated impairment	(2,463)	-	-	-	(2,463)
Net carrying amount	39,422	7,572	2,543	1,295	50,832
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

(*) Reversal of the prior year impairment is based on independent valuation made by independent appraisal firm at October 19, 2005.

(**) Includes the reversal of impairment (YTL 2,453) and current year impairment (YTL 321). The reversal of the prior year impairment is based on the appraisal reports prepared by authorized appraisal firms at October 25, 2004.

(***) YTL 2,160 (net) and YTL 1,155 (net) of furniture and office equipment consist of assets obtained through leasing as of December 31, 2005 and 2004, respectively.

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2005 and 2004 is as follows :

	2005	2004
Furniture and office equipment	628	1,315
Motor vehicles	2,847	164
Leasehold Improvements	1,346	1,347
	4,821	2,826

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12. INTANGIBLE ASSETS, NET

	Software
At January 1, 2004	1,124
Additions	646
Disposals	-
Amortization charge for the year	(438)
At December 31, 2004 net of accumulated amortization	1,332
Additions	1,546
Disposals	-
Amortization charge for the year	(908)
At December 31, 2005, net of accumulated amortization	1,970
At December 31, 2003	
Cost (gross carrying amount)	2,032
Accumulated amortization	(908)
Net carrying amount	1,124
At December 31, 2004	
Cost (gross carrying amount)	2,677
Accumulated amortization	(1,345)
Net carrying amount	1,332
At December 31, 2005	
Cost (gross carrying amount)	4,223
Accumulated amortization	(2,253)
Net carrying amount	1,970

As of December 31, 2005, YTL 835 (2004 - None) of intangible asset has fully amortized.

13. DUE TO OTHER FINANCIAL INSTITUTIONS AND BANKS

Original Foreign Currency	Amount in YTL		Effective cost rate	
	2005	2004	2005	2004
US\$	158,252	54,811	5.02%	3.41%
Euro	38,254	-	3.25%	-
Total	196,506	54,811		

As of December 31, 2005 and 2004, all borrowings of the Institution comprise short-term borrowings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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14. CURRENT AND PROFIT LOSS SHARING INVESTORS' ACCOUNTS

	2005	2004
Current accounts:		
New Turkish lira	186,504	97,082
Foreign currency	223,130	174,481
	409,634	271,563
Profit/loss sharing investors' accounts:		
New Turkish lira	600,891	258,276
Foreign currency	885,169	793,308
	1,486,060	1,051,584
Blocked accounts:		
New Turkish lira	13,300	7,745
Foreign currency	2,229	1,651
	15,529	9,396
Total current accounts and profit/loss investors' accounts	1,911,223	1,332,543
Expense accrual on current accounts and profit/loss sharing investors' accounts (*)	9,388	-
Total current accounts and profit/loss sharing investors' accounts	1,920,611	1,332,543

(*) The expense accrual on current accounts and profit/loss sharing inventors' account was netted off by the reserve associated with investment account. The reserve exceeding the expense accrual in the related year is deducted directly from the inventors' account.

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

	2005			2004		
	YTL	Foreign Currency	Total	YTL	Foreign Currency	Total
Up to 1 month	662,830	767,802	1,430,632	310,558	663,585	974,143
From 1 month to 3 months	76,224	159,614	235,838	36,714	204,131	240,845
From 3 months to 1 year	36,757	141,232	177,989	10,710	35,103	45,813
Over one year	24,884	41,880	66,764	5,121	66,621	71,742
	800,695	1,110,528	1,911,223	363,103	969,440	1,332,543

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

At December 31, 2005, foreign currency current and profit/loss sharing investors' accounts are as follows :

	2005		2004	
	Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Current accounts:				
US\$	111,934,475	149,198	88,069,443	123,570
Euro	46,334,884	72,917	26,015,984	49,686
Other	-	3,244	-	2,876
	-	225,359		176,132
Profit/loss sharing investors' accounts:				
US\$	358,385,726	549,602	370,237,128	519,478
Euro	168,498,677	335,567	143,243,595	273,830
	-	885,169	-	793,308
	-	1,110,528	-	969,440

The Institution 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 Institution and there is no predetermined return on these accounts when depositing money.

As of December 31, 2005, current accounts and profit / loss sharing investors' accounts from other banks and financial institutions amounting to YTL 8,530 (2004- YTL 2,538) comprise only current accounts. YTL 3,074 of this balance is denominated in foreign currency

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

	2005	2004
New Turkish Lira	16.30% - 19.54%	20.55% - 26.72%
Foreign Currency	3.01% - 4.18%	3.11% - 3.61%

15. INCOME TAXES

The Institution and its subsidiaries are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and other countries in which the Institution and its subsidiaries operate. In 2005, the effective corporate tax rate in Turkey is 30% (2004 - 33%).

Corporate tax returns are required to be filed until the fifteenth of the fourth month following the year-end and paid in one installment until the end of the related month.

The tax legislation provides for a temporary tax of 30% (2004 - 33%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005, unless indicated otherwise)

15. INCOME TAXES (continued)

In 2003 and prior years corporation tax was computed on the statutory income tax base determined in accordance with the Tax Procedural Code without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting.

Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet is not subject to corporation tax and similarly accumulated deficits arising from such application is not deductible for tax purposes. Moreover, accumulated tax loss carry forwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years. In 2005, inflation accounting application for tax purposes was ceased by the Ministry of Finance based on the decline in the inflation rate.

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.

Effective from April 24, 2003, investment allowances provide a deduction from the corporate tax base of 40% of the purchases of the brand-new fixed assets having economic useful life and exceeding YTL 10 (2004 - YTL 6) and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at the will of the companies. Investment allowances can be carried forward indefinitely with indexed amounts.

10% withholding tax applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distribution by resident corporations to resident corporations are not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Capital gains derived from cash sales of participation shares that have been held for at least two years are exempt from corporation tax if the gains are added to share capital. Furthermore, in the event the profit arising from the dividend receipt is not distributed or is included in capital, no withholding tax shall be applicable. As a result of the above exemption, the Institution did not recognize a deferred tax liability on the undistributed profits of subsidiaries and associates and other temporary differences pertaining to other investments in shares issued by Turkish companies.

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.

	2005	2004
Current tax expense	-	-
Deferred tax benefit	717	2,932
Total income tax expense/(benefit)	717	2,932

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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 Institutions' effective income tax rate for the year then ended December 31, 2005 and 2004 is as follows :

	2005	2004
Net profit after monetary loss and before income tax	17,340	2,735
At Turkish statutory income tax rate of 30% (2004 - 33%)	5,202	902
Effect of the change in tax rate	-	(81)
Effect of income not subject to tax	(2,362)	(570)
Effect of expenditure not allowable for income tax purposes	731	3,556
Effect of restatement pursuant to IAS 29 and others,	(1,831)	(949)
Effect of investment incentive	(2,457)	(5,790)
Income tax benefit	(717)	(2,932)

Deferred income tax as of 2005 and 2004 is attributable to the following items :

	Deferred tax assets/(liabilities)	
	2005	2004
Accounting for finance leases	23,805	30,193
Provision for impairment in due from financing activities and investment in finance leases	119	430
Reserve for employment termination benefits	568	476
Effect of other temporary differences	1,414	1,687
Investment incentive	18,304	12,107
Deferred tax assets	44,210	44,893
Restatement of property and equipment, intangible assets and other non-monetary items	5,143	2,511
Provision for impairment in due from financing activities (profit share investors' portion)	886	2,860
Effect of other temporary differences	1,304	648
Deferred tax liabilities	7,333	6,019
Deferred tax asset – net	36,877	38,874
Deferred tax asset not recognized (*)	(18,254)	(20,156)
Deferred tax asset - net	18,623	18,718

(*) The deferred tax assets arising on temporary differences have not been fully recognized as of December 31, 2005, on the basis that a portion amounting to YTL 18,254 (2004 - YTL 20,156) will not be realized in the foreseeable future.

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15. INCOME TAXES (continued)

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

	2005	2004
Balance at January 1	18,718	18,195
Deferred income tax recognized in income statement	717	2,932
Monetary loss	(812)	(2,409)
Balance at December 31, 2005 (*)	18,623	18,718

(*) Presented on the balance sheet as YTL 18,909 deferred tax asset (2004 - YTL 19,768) and YTL 286 deferred tax liability (2004 - YTL 1,050) which belong to the Institution and its subsidiary (Körfez), respectively.

16. OTHER LIABILITIES AND PROVISIONS

	2005	2004
Withholding tax and other tax payables	4,723	4,462
Deferred revenue	3,579	4,233
Payables to exporters and suppliers	1,264	6,558
Notes and trade payable	-	5,612
Expense payable	436	766
Security premium for participation funds	1,178	630
Other	877	1,405
Total liabilities	12,057	23,666
Provisions		
Employee termination benefits	1,893	1,585
Provision for tax penalty (Note 8)	1,801	1,828
Total provisions	3,694	3,413
Total	15,751	27,079

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

	2005	2004
Balance at January 1	1,585	1,412
Utilized/paid	(330)	(212)
Arising during the year	707	557
Monetary gain	(69)	(172)
Balance at December 31	1,893	1,585

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16. OTHER LIABILITIES AND PROVISIONS (continued)

Reserve For Employment Termination Benefits

In accordance with existing social legislation, the Institution 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 1,727 (full) and YTL 1,575 (full) at December 31, 2005 and 2004, 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, 2005 and 2004, the Institution 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 annual ceiling has been increased to YTL 1,771 effective January 1, 2006.

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

	2005	2004
Discount rate	5.82%	6%
Turnover rate to estimate the probability of retirement	5%	5%

17. DERIVATIVES

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.

	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	-	-	-	-

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17. DERIVATIVES (continued)

	2004							
	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	561	-	111,551	111,410	141	-	-	-
Currency swap sale	-	11	110,776	110,619	157	-	-	-
	561	11	222,327	222,029	298	-	-	-

18. SHARE CAPITAL

	2005	2004
Number of common shares , YTL 0.1, par value. Authorized, issued and outstanding.	2,001.88 million	1,991.06 million

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

	2005	2004
	Number	Number
At January 1	1,991,060,000	953,100,000
Shares issued in		
- bonus shares from retained earnings	-	131,820,000
- bonus shares from revaluation adjustment	-	131,820,000
- cash	-	774,320,000
- bonus shares from fixed assets sales gain	10,820,000	-
At December 31, 2005 and December 31, 2004	2,001,880,000	1,991,060,000

As of December 31, 2005 and 2004, the composition of shareholders and their respective % of ownership can be summarized as follows :

	2005		2004	
	Amount	%	Amount	%
Kuwait Finance House	124,586	62.2	123,912	62.2
Directorate of Vakıf Foundations, Turkey	37,473	18.7	37,271	18.7
The Public Institution for Social Security, Kuwait	18,017	9.0	17,920	9.0
Islamic Development Bank	18,017	9.0	17,920	9.0
Other	2,095	1.1	2,083	1.1
Historical amount	200,188		199,106	
Adjustment to share capital	22,703		22,690	
Total share capital	222,891		221,796	

Adjustment to share capital represents the restatement effect of the cash contributions and dividends reinvested to share capital.

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

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

Movement in legal reserves and retained earnings are as follows:

	2005			2004		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Accumulated Deficit	Total
At January 1	10,993	(20,385)	(9,392)	8,008	(8,294)	(286)
Issue of share capital	-	(1,095)	(1,095)	-	(14,349)	(14,349)
Transfer from retained earnings	910	(910)	-	2,985	(2,985)	-
Dividends paid	-	(149)	(149)	-	(424)	(424)
Netting of inflation effect	(7,318)	7,318	-	-	-	-
Net profit for the year	-	18,057	18,057	-	5,667	5,667
At December 31	4,585	2,836	7,421	10,993	(20,385)	(9,392)

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 Institution has paid YTL 149 dividend out of profits for 2004 to BOD members.

At the Board of Directors meeting held on March 8, 2005 it was resolved to pay YTL 147 dividend to the Board Members which is subject to the approval of the next Ordinary General Assembly of Shareholders.

20. FEES AND COMMISSION INCOME AND EXPENSE

	2005	2004
Fees and commission income		
Service commissions	22,223	15,666
Credit card fees and commissions	16,547	6,505
Communication expense charges	4,744	3,081
Letter of guarantee charges	2,994	1,265
Import letter of credit commissions	1,692	1,103
POS commission income	1,269	2,012
Income from agency activities	1,070	1,889
Other	2,041	2,831
TOTAL	52,580	34,352

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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20. FEES AND COMMISSION INCOME AND EXPENSE (continued)

	2005	2004
Fees and commission expense		
Fees paid for credit card	5,654	1,206
Credit Card Machine and ATM Commission	983	3,916
Brokerage fees on borrowings	289	535
Other	737	965
Total	7,663	6,622

21. OTHER EXPENSES

	2005	2004
Impairment on asset held for resale	709	-
Impairment on property and equipment	-	4,088
Impairment charges	709	4,088
Advertising expenses	7,455	5,950
Professional fees	4,268	2,915
Communication and consultation expenses	3,117	2,319
Travel and representation expenses	2,756	1,136
Stationery and subscription expenses	1,462	876
Insurance fund premium expense	1,280	1,542
Energy expenses	1,235	793
Clearing expense	1,009	651
Repair and maintenance expenses	979	514
Loss from sale of asset to be sold	799	-
Insurance expense	360	537
Other	6,884	2,527
Other expenses	31,604	19,760
	32,313	23,848

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22. COMMITMENTS AND CONTINGENCIES

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

- a) The following is a brief summary of significant contingencies and commitments as of December 31, 2005 and 2004 :

	2005	2004
Letters of guarantee issued by the Institution (*)	268,182	144,896
Letters of credits	82,310	69,202
Acceptance credits	5,555	15,127
Other guarantees	30	-
Total	356,077	229,225

- (*) Included YTL 950 letter of guarantee issued by the Institution to Auto Land (consolidated subsidiary)

Except for the Head-Office, and two branch buildings, all branch premises of the Institution 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 :

	2005	2004
Within one year	5,593	4,201
After one year but not more than five years	14,318	9,950
More than five years	44	323
Total	19,955	14,474

- b) There is a lawsuit between the subsidiary of the Institution and one of its service suppliers with respect to the profit sharing agreement of Güre project (Note 1), which was filed to Arbitration Committee Court in November – 2003 in accordance with the articles of the profit sharing agreement. The case is currently pending for the decision of the Experts Committee appointed by the Arbitration Committee Court. No provision has been provided in the consolidated financial statements as of December 31, 2005 with regard to this matter as the Institution's management believes that the Court's decision will probably be in favour of the subsidiary.

Fiduciary Activities

Other than checks and notes received for collections in favor of the customers, the Institution and its subsidiaries do not have any fiduciary assets and those are not included in the accompanying financial statements. As of December 31, 2005, the amounts of the checks and notes are YTL 381,491 (2004 - YTL 310,847) and YTL 102,139 (2004 - YTL 96,870)

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

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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, management and members of the Institution's Board of Directors and their families.

The following significant balances invested as of December 31, 2005 and transactions have been entered into with related parties during the year then ended :

i) Due from financial institutions :

		December 31, 2005		December 31, 2004	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	1,097	5	239,419	1,130
	US\$	55,101	74	48,390	68
	EUR	-	-	5,000	10
	BHD	31,461	112	-	-
			191		1,208

ii) Available for sale investments :

		December 31, 2005		December 31, 2004	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (K.S.C.) (1)	US\$	5,085,417	6,830	8,000,000	11,225
Islamic Development Bank participation fund (1)	US\$	507,695	682	500,000	702
Kuwait Finance House (K.S.C.) (1)	Kuwaiti Dinar	-	-	746,200	3,524
			7,512		15,451

iii) Due to other financial institutions :

		December 31, 2005		December 31, 2004	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US\$	12,276,923	16,488	-	-
			16,488		-

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23. RELATED PARTY DISCLOSURES (continued)

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

		December 31, 2005		December 31, 2004	
		Foreign	YTL	Foreign	YTL
		Currency (full)	Equivalent	Currency (full)	Equivalent
Kuwait Finance House (1)	EUR	2,303,346	3,663	-	-
Kuwait Finance House (1)	US\$	5,248,333	7,049	5,237,122	7,348
Kuwait Finance House (1)	YTL	-	133	-	137
Islamic Development Bank (1)	US\$	11,914	16	3,000,000	4,209
Islamic Development Bank (1)	YTL	-	144	-	151
Directorate of Vakıf Foundations, Turkey (1)	YTL	-	2,144	-	1,936
Islamic Rating Agency	US\$	-	-	1,000,000	1,403
			13,149		15,184

v) Long term bank borrowings :

		December 31, 2005		December 31, 2004	
		Foreign	YTL	Foreign	YTL
		Currency (full)	Equivalent	Currency (full)	Equivalent
Kuwait Finance House (1)	US\$	18,173,490	24,407	14,190,116	19,910
			24,407		19,910

The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House. The all rights and obligations of the investment property belong to Kuwait Finance House. Therefore, it is a non-profit bearing liability.

vi) Profit shares distributed :

		2005		2004	
		Foreign	YTL	Foreign	YTL
		Currency (full)	Equivalent	Currency (full)	Equivalent
Kuwait Finance House (1)	US\$	376,768	506	122,116	171
Directorate of Vakıf Foundations, Turkey (1)	YTL	-	293	-	312
			799	122,116	483

vii) Non cash credits issued :

		December 31, 2005		December 31, 2004	
		Foreign	YTL	Foreign	YTL
		Currency (full)	Equivalent	Currency (full)	Equivalent
Kuwait Finance House (1)	US\$	1,037,230	1,393	1,547,575	2,171
Other	YTL	-	-	-	38
			1,393	1,547,575	2,209

(1) Shareholders.

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23. RELATED PARTY DISCLOSURES (continued)

Directors' Remuneration

The executive members of the Board of Directors and management received remuneration totaling YTL 3,659 during 2005 (December 31, 2004 - YTL 2,914).

The key personnel of the Institution is listed as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman
Abdullah TIVNIKLİ	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. Member
Rashed Salem Al- FARHAN	B.O.D. Member
Osman Niyazi AKÇAY	B.O.D. Member
Adnan ERTEM	B.O.D. Member - Responsible from Risk Management
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz Al- ISSA	Deputy Chief Executive Officer

24. SALARIES AND EMPLOYEE BENEFITS

	2005	2004
Staff costs		
Wages and salaries	34,349	23,273
Social security premiums	5,765	5,222
Other fringe benefits	4,921	2,763
Bonus payment	2,635	414
Health expenses	1,744	1,287
Provision for employee termination benefits	707	557
Other	1,837	411
Total	51,958	33,927

The average number of employees for the years is :

	2005	2004
The Institution	1,175	802
Körfez Gayrimenkul	10	11
Auto Land	14	4
Total	1,199	817

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

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25. FINANCIAL RISK MANAGEMENT

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 Institution.

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

	2005				2004			
	Cash	%	Non Cash	%	Cash	%	Non Cash	%
Textile and leather	365,564	25.5	46,831	13.2	229,482	27.7	50,112	21.9
Food and beverage	201,740	14.0	40,824	11.5	135,038	16.3	18,201	7.9
Chemicals and petroleum	109,242	7.6	14,069	3.9	76,218	9.2	13,017	5.7
Metal products	117,701	8.2	16,794	4.7	62,963	7.6	21,441	9.4
Automotive	118,553	8.2	7,108	2.0	58,820	7.1	6,705	2.9
Construction	140,713	9.8	138,443	38.9	51,364	6.2	19,598	8.5
Forestry	76,964	5.4	2,511	0.7	43,080	5.2	3,399	1.5
Electronics	43,662	3.0	27,058	7.6	33,139	4.0	26,747	11.7
Paper	48,815	3.4	1,148	0.3	27,343	3.3	6,042	2.6
Health and social services	69,019	4.8	12,322	3.5	25,676	3.1	3,419	1.5
Computer	25,550	1.8	1,649	0.5	13,255	1.6	333	0.1
Leasing	12,809	0.9	6,956	1.9	6,632	0.8	28,929	12.6
Other industries	105,768	7.4	40,364	11.3	65,449	7.9	31,282	13.7
	1,436,100	100.0	356,077	100.0	828,459	100.0	229,225	100.0
Income accruals	30,030		-		30,012		-	
Credits in arrears	87,809		-		175,605		-	
Provision for possible credit losses	(47,547)		-		(97,947)		-	
Total	1,506,392		356,077		936,129		229,225	

The share of the Institution's receivables from its top 20 exposures of credit customers in its total due from financing activities portfolio is 12.4% (2004 - 19%).

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

Liquidity Risk

Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Institution within the normal terms of trade. To manage the risk, the financial liabilities of large customers are regularly assessed by the Institution. 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 Institution into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

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25. FINANCIAL RISK MANAGEMENT (continued)

2005

	Demand and less than 1 month	1 to 3months	3 to 12 months	Over 1 year	Unallocated	Total
Cash and balance with central bank	119,472	-	-	-	-	119,472
Deposits with banks and financial institutions	270,187	13,430	-	-	-	283,617
Reserve deposits at the Central Bank of Turkey	131,172	-	-	-	-	131,172
Investment securities available-for-sale	730	-	13,578	-	374	14,682
Due from financing activities, net	179,290	236,448	566,006	486,663	37,985	1,506,392
Minimum financial lease payment receivable, net	8,041	13,729	47,656	77,437	13,732	160,595
Other assets	27,222	-	-	-	1,210	28,432
Construction projects, net	-	-	-	-	8,602	8,602
Intangible assets, net	-	-	-	-	1,970	1,970
Investment property, net	-	-	-	-	25,045	25,045
Property and equipment, net	-	-	-	-	64,578	64,578
Deferred tax assets	-	-	-	-	18,909	18,909
Total assets	736,114	263,607	627,240	564,100	172,405	2,363,466
Due to other financial institutions and banks	71,747	54,516	49,430	20,813	-	196,506
Current and profit/loss sharing investors' accounts	1,498,350	246,523	170,859	4,879	-	1,920,611
Other liabilities	8,217	1,674	323	1,843	-	12,057
Provisions	-	-	-	-	3,694	3,694
Deferred tax liabilities	-	-	-	-	286	286
Total shareholders' equity	-	-	-	-	230,312	230,312
Total liabilities and equity	1,578,314	302,713	220,612	27,535	234,292	2,363,466
Net balance sheet liquidity gap	(842,200)	(39,106)	406,628	536,565	(61,887)	-
Net off-balance sheet liquidity gap	58	-	-	-	-	58
Total gap	(842,142)	(39,106)	406,628	536,565	(61,887)	58
As at 2004						
Total assets	290,139	160,541	417,723	353,422	406,062	1,627,887
Total liabilities and equity	970,649	309,603	107,399	25,198	215,038	1,627,887
Net balance sheet liquidity gap	(680,510)	(149,062)	310,324	328,224	191,024	-
Net off-balance sheet liquidity gap	791	(17)	-	-	-	774
Total gap	(679,719)	(149,079)	310,324	328,224	191,024	774

Currency Risk

Exchange rate risk indicates the possibilities of the potential losses that the Institution is subject to due to the exchange rate movements in the market. The Institution 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.

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25. FINANCIAL RISK MANAGEMENT (continued)

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

2005

	EUR	USD	OTHER	YTL	Total
Cash and balances with central bank	12,640	19,158	2,424	85,250	119,472
Deposits with banks and financial institutions	84,030	139,834	-	59,753	283,617
Reserve deposits at the Central Bank of Turkey	130,574	598	-	-	131,172
Investment securities - available-for-sale	-	14,444	-	238	14,682
Due from financing activities, net	209,823	537,469	6	759,094	1,506,392
Minimum financial lease payment receivable, net	51,979	92,882	-	15,734	160,595
Other assets	615	1,346	9	26,462	28,432
Construction projects, net	-	2,724	-	5,878	8,602
Intangible assets, net	-	72	-	1,898	1,970
Investment property, net	-	-	-	25,045	25,045
Property and equipment, net	-	80	-	64,498	64,578
Deferred tax assets	-	-	-	18,909	18,909
Total assets	489,661	808,607	2,439	1,062,759	2,363,466
Due to other financial institutions and banks	38,234	157,777	-	495	196,506
Current and profit/loss sharing investors' accounts	409,703	693,180	9,181	808,547	1,920,611
Other liabilities	312	4,429	1,575	5,741	12,057
Provisions	-	-	-	3,694	3,694
Deferred tax liabilities	-	-	-	286	286
Total shareholders' equity	-	-	-	230,312	230,312
Total liabilities and equity	448,249	855,386	10,756	1,049,075	2,363,466
Net Balance Sheet Position	41,412	(46,779)	(8,317)	13,684	-
Net Off-Balance Sheet Position	(22,148)	15,289	162	6,755	58
As at 2004					
Total Assets	281,482	771,040	17,554	557,811	1,627,887
Total Liabilities & Equity	330,538	699,069	4,716	593,564	1,627,887
Net Balance Sheet Position	(49,056)	71,971	12,838	(35,753)	-
Net Off-Balance Sheet Position	39,571	(99,265)	206	60,262	774

Profit Rate Risk

The Institution 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 Institution, rather than giving them a pre-determined rate of profit (Notes 12 and 13). 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 :

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25. FINANCIAL RISK MANAGEMENT (continued)

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 finance 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	3.25	-

2004

Assets	US\$ %	EUR %	YTL %
Cash and due from banks (*)	2.18	2.03	18.35
Due from financing activities (*)	7.71	7.47	25.02
Investments in leases (*)	7.06	6.40	25.46
Liabilities			
Profit/loss sharing investors' accounts (**)	3.19	3.24	23.12
Due to other financial institutions and banks (*)	3.41	3.00	-

(*) 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 Institution 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 Institution 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 Control and Risk Management Systems of Banks".

The Board of Directors of the Institution evaluates basic risks than can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the institution. 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 Institution.

Capital Adequacy

To monitor the adequacy of its capital, the Institution 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 8% as required by BRSA) by comparing the Institution'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, 2005 and 2004, the Institution's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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 characteristics or by discounting the expected future cash flows at prevailing profit rates.

Fair value of due from financing activities are considered to approximate their carrying values as the profit shares applicable to those receivables are in line with market rates which are sensitive to interest rates and mainly due to short-term nature of these receivables. The fair value of the whole fund portfolio is estimated by assessing the risk components of the portfolio. Fair value of remaining financial assets and financial liabilities carried at amortized cost are considered to approximate their respective carrying values due to their short-term nature and also the fact that effective profit rates on those represent the current effective market rates.

27. SUBSEQUENT EVENTS

There is a draft tax legislation announced in the website of Directory of Inland Revenue, which among other changes, foresees the reduction of the corporate tax rate from 30% to 20% effective January 1, 2006.