



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

**ANNUAL REPORT 2007**



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



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## CONSOLIDATED FINANCIAL HIGHLIGHTS



### CONSOLIDATED FINANCIAL HIGHLIGHTS (,000 YTL)

	2007	2006
Profit-sharing Income	354,008	269,592
Profit-sharing Expense	216,149	165,060
Fee and Commission Income (Net)	92,144	57,983
Other Operating Income	36,415	16,365
Other Operating Expenses	180,501	138,923
Provision for Tax Liabilities	18,839	-
<b>Profit for the Year (Net)</b>	<b>67,078</b>	<b>39,957</b>
<b>Total Assets</b>	<b>3,860,015</b>	<b>2,951,434</b>
<b>Total Shareholders' Equity</b>	<b>404,422</b>	<b>270,122</b>
<b>Capital Adequacy Ratio (%)</b>	<b>14.72</b>	<b>15.01</b>

## KUWAIT TURKISH PARTICIPATION BANK IN BRIEF



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

Kuwait Turkish Participation Bank (KTPB) began banking and finance operations on March 31, 1989 with the support of internationally recognized shareholders including Kuwait Finance House, the Turkish General Directorate of Foundations, the Kuwait Social Security Institution, and the Islamic Development Bank. Its main area of business is providing funds for the real economy, collecting them as deposits to "Special Current Accounts" and "Profit and Loss Participation Accounts" and conducting the full range of financing activities within the framework of the relevant regulations. In this fashion, investment by real and legal persons involved in agricultural, industrial, and commercial activities are promoted and invested in, and by forming joint venture partnerships, these types of services and activities are conducted in accordance with interest-free banking principles. As of the end of December 31, 2007, Kuwait Turkish conducted its activities with a total of 1,799 staff members employed at 86 corporate and retail branches, and one international branch (Bahrain). Kuwait Turkish's equity capital, which was YTL 200,188,000 as of year-end 2006, was increased 30 percent to YTL 260,000,000 in 2007. KTPB's total assets, as of December 31, 2007, were up 31 percent on the previous year to YTL 3,860,015,000.

Drawing on the extensive experience of its senior management and a young, dynamic, highly educated staff, KTPB is committed to driving innovation in interest-free finance and has the largest network of international

correspondents of any participation bank in Turkey, as well as a growing international presence including an overseas branch and representative office. Backed by a strong capital structure and the experience of its parent company, Kuwait Finance House, as well as the advantages delivered by its Bahrain branch, KTPB is a leader in financing trade with the Gulf States. In recognition of its contributions to interest-free banking, Kuwait Turkish was recognized with an award from the Institute for International Research (IIR). Organizing Turkey's first and largest murabaha syndicated credit, worth US\$ 200 million, KTPB once again raised the bar for Turkey's participation banks. Among the Bank's main objectives are to take a greater share of the international trade finance market and to generate greater access to both investors and sources of funding from the GCC. Taking advantage of its status as the first participation bank to enter the retail banking arena, KTPB has built on its standing in retail banking thanks to a superior capacity to design and adapt new products for the Turkish market. KTPB became the first participation bank to introduce customer segmentation, a move that, in addition to promoting superior quality customer service, also helped the bank focus on building long-term customer relations and developing a stable base of loyal customers. To better serve importers and exporters, allowing them to hedge their businesses against economic uncertainty and exchange rate fluctuations, KTPB led the way among participation banks in introducing forward transactions.



## A HISTORY OF KUWAIT TURKISH

- 1989** Kuwait Turkish Evkaf Finance House begins banking and finance operations on March 31st with capitalization of TL 15 billion.
- 1990** Kuwait Turkish receives a gold medal for its contributions to the garment industry. By the decision of the Shareholders General Assembly, capitalization is increased to TL 30 billion.
- 1995** In recognition of its contributions to exports, the Turkish Union of Ready-Wear and Garment Exporters awards Kuwait Turkish a gold medal.
- 1996** Kuwait Turkish's real estate development subsidiary, Körfez Real Estate is established.
- 2000** The Kuwait Turkish branch network reaches 24, with half as many branches being opened as had been opened in Kuwait Turkish's entire first decade. The Retail Banking Department is established. Kuwait Turkish becomes the first interest-free financial institution in Europe to receive ISO 9001-2000 Quality Certification.
- 2002** Kuwait Turkish becomes the first special finance house to be a member of Visa International. Kuwait Turkish moves its Istanbul Head Offices from Mecidiyeköy to its current high-tech building in Esentepe.
- 2003** In order to provide banking services in every corner of Turkey, an agreement is reached with the PTT, which has almost 1,000 on-line branches.
- 2004** Sizcard, Turkey's first and only truly interest-free credit card is launched. The Bank's first European Representative Office opens in Munich. The Bank's capitalization is increased from YTL 95 million to YTL 199 million.
- 2005** In recognition of its contributions to interest-free banking in Turkey, KTPB receives an award at the International Islamic Finance Forum held in Istanbul.
- 2006** The Bank officially changes its name from Kuveyt Türk Evfak Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası" A.Ş. The US\$ 50 million, four-year tenor murabaha syndication credit secured for GAP Güneydoğu Textiles is the longest tenor interest-free credit secured from the Gulf Countries for any Turkish company.
- FitchRatings upgrades KTPB's Individual Rating from D/E to D and the Bank's AA (-) long-term local rating to AA (tur). The US\$ 200 million murabaha syndication credit KTPB secured from banks in the Gulf and Europe is a first in Turkey and oversubscribed by US\$ 65 million, closing at US\$ 200 million, pointing to the importance of a strong rating.
- 2007** The international credit rating institution, FitchRatings, when it revised Turkey's credit rating, also raised KTPB's credit rating. FitchRatings increased KTPB's long-term YTL denominated credit rating from BB+ to BBB- and its short-term YTL denominated rating from B to F3. In another first for a Turkish participation bank, KTPB introduced FX forward transactions. At its 19th Annual General Shareholders' Assembly, the Bank's shareholders' capital was increased by 30 percent from YTL 200,188,000 to YTL 260,000,000. Joining the Istanbul Gold Exchange, it also became the first participation bank to offer its customers the opportunity to purchase gold by the gram.

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



### Kuwait Turkish Participation Bank, Incorporated

#### Shareholding and Capital Structure

No	Name/Title	Total Share Value (YTL)	Share Percentage (%)
1	Kuwait Finance House	161,809,805	62.23
2	General Directorate of Foundations Turkey	48,670,084	18.72
3	Kuwait Social Security Institution	23,399,998	9.00
4	Islamic Development Bank	23,399,998	9.00
5	Komaş Kocatepe Modern Retailing, Inc.	994,728	0.38
6	Other	1,725,387	0.66
<b>TOTAL</b>		<b>260,000,000</b>	<b>100</b>

- With shareholdings of more than 10 percent, Kuwait Finance House and the Turkish General Directorate of Foundations are considered key shareholders according to the Banking Regulations.
- The total shareholdings in the Bank of its Chairman of the Board, Members of the Board, Members of the Board of Auditors, the Chief Executive Officer and Executive Vice Presidents are %0.16.
- At the Board of Directors meeting held on March 29, 2007, a proposal was drawn up for a change in Article 7 of the Bank's Articles of Incorporation, and, at the Shareholders' General Assembly held on May 2, 2007, this change calling for the increase in the Bank's Shareholders' Equity from YTL 200,188,000 to YTL 260,000,000 was approved. This change was duly reflected in the Articles of Incorporation, and no other changes were made to the articles in 2007.



## CHAIRMAN'S LETTER



Dear Shareholders,

Thanks to support from you, our valued shareholders, our Bank, which is the largest Kuwaiti investment in Turkey, is moving confidently towards its 20th anniversary, something which is extremely gratifying for all of us on the board of directors who are justly proud of the long history of close cooperation that has brought us to today's highly satisfying level of achievement.

Although internationally, interest-free banking accounts for assets totaling US\$ 500 billion and has a history stretching 50 years, in Turkey it dates back only 24 years, which gives Kuwait-Turkish Participation Bank's 18-year heritage a new significance.

Since its founding, our Bank has provided not only funding for real sector production and investments, but has also offered a variety of financial instruments not typically offered by other institutions in the Turkish interest-free finance industry. This approach has helped us to establish a reputation as an innovator and trailblazer for our sector. At the same time that we have accomplished all this, we have built a track record of rapid and profitable growth, based on meeting expectations and satisfying customer needs.

The journey that began in 1989 with our Head Office and a single branch today continues with a total of 25 new branches to be opened in 2008. In order to meet our target of 170 branches by 2010, we are investing today in human resources and technology for the future. Moreover, our efforts are not confined by the borders of Turkey; in 2008 we plan to open a branch in Dubai that will replicate the successes of our Bahrain branch by providing Gulf States funds and investors with even more convenient access to investment opportunities in Turkey. In Germany, we plan to convert our representative office to a financial services branch, serving savers and investors seeking to transfer funds to Turkey.

By expanding our branch network, focusing on high-margin customers, entrepreneurial Small and Medium-sized Enterprises (SMEs) and credit card issuing, our objective is to expand KTPB's share of the retail lending market. In 2008, we will emphasize SME Banking, which is targeted to grow to 15 percent of all credits, and foreign trade and project finance, particularly in the Gulf States and Turkic Republics of the Caucasus and Central Asia. By providing contractors operating in the region with cash and non-cash credits, our aim is to grow in project finance and to further expand our international branch network.

To meet our customers' financing needs, every year we secure between US\$ 100 and US\$ 500 million in syndication credits. Particularly over the past two years we have been very actively involved in financing both foreign trade and construction projects in the Gulf

States, the Turkic Republics and North Africa. As of year-end 2007, KTPB's non-cash credit portfolio stood at US\$ 1 billion, and this is a business line where the Bank generates 100 percent volume increases year after year. The lending emphasis for 2008 will be on a combination of basic SME financing, SME investment financing, non-cash credits and arrangement of syndicated financing.

KTPB has the largest home loan financing portfolio of any participation bank in Turkey, and real estate is a business line to which we give great importance. Our real estate investment subsidiary, Körfez Real Estate, allows us to keep our finger on the pulse of the industry, and our objective is to grow in two different segments of the industry: both financing and real estate development. Our priority is on participating in major, large-scale projects.

Another important opportunity stems from the fact that there is a significant segment of the Turkish population that seeks non-interest investments. Encouraging retail investors in this category to invest in the Istanbul Stock Exchange could spur major growth in alternative vehicles or markets of this type. KTPB has acquired an agency license for the purpose of offering trading services and is researching offering equity investments in cooperation with a brokerage house.

In closing, our confidence in Turkey's potential and development continues and is increasing. As KTPB enters its 20th year, the experience and support of our parent company, Kuwait Finance House, one of the largest interest-free institutions not only in the Gulf Region but internationally, and our other shareholders will be our guide and compass. We will remain dedicated to serving Turkey's dynamic real sector, providing billions of dollars of financing for investments to increase competitiveness and spur growth, at the same time that we provide our retail banking customers with products and services designed to improve their lifestyles. KTPB is a strong and trusted brand that is associated in the international arena and in Turkey with important projects that add value both to Turkey and the brand, and, guided by insightful and experienced management, backed by a team of dedicated professionals, we will continue the journey that began back in 1989, moving steadily forward to achieve our goal of being one of the leading financial institutions in Turkey.

Sincerely,

Mohammad S.A.I. Al-Omar  
Chairman of the Board

## CEO'S LETTER



Dear Shareholders,

Following what was for the entire banking industry a profitable year, Kuwait Turkish Participation Bank (KTPB), maintained its momentum and stability, demonstrating the Bank's capacity to achieve its long-term objectives.

The support of our partners and shareholders, the expertise of our management team, our highly qualified staff and the competitiveness of our branches and Head Office units made it possible to achieve our ambitious profitability targets for 2007.

KTPB's year-end profits were up 68 percent on 2006 to 67.1 million YTL, continuing an unbroken record of profitability that is a testimony to the strength of the Bank and the soundness of its management. Total assets were up 31 percent to 3.86 billion YTL, with lending rising by 30 percent to 2.92 billion YTL. Despite fluctuations in the international financial markets and the resulting uncertainty not only in Turkey but also around the world, the ability of sound financial policies to secure outstanding results in terms of profitability makes us confident of our performance in the coming year.

Retail lending accounted for 27 percent of total cash loans in 2007, of which 8 percent were loans to Small and Medium-sized Enterprises (SMEs). Retail deposits were up by 47 percent over the previous year, while net fees and commission income from retail banking was up by 60 percent. In our corporate and commercial business, non-cash credits account for 60 percent of our total portfolio, while net fee and commission income was 63 percent higher than in 2006. Growth was driven in part by an increase of 29 percent in active credit customers over 2006.

Our global network of correspondent banks includes 148 institutions in a total of 75 countries, 67 of which were added to our network in 2007. As well as being the Turkish participation bank with the largest global correspondent network, we also built on our international brand and representative offices operations in 2007 and, in the first half of 2008, plan to open our Dubai branch.

The expansion of our branch network not only improved KTPB's geographic coverage but also generated significant employment. As of year-end 2007, our branch network had expanded to 87, an increase of nine branches over 2006, and our total staff reached 1,799.

As well as expanding our branch network, thanks to a combination of building on our already high standards of service quality and our ability to innovate interest-free financial products, we introduced a succession of new products. Offering our Participation Account customers a new level of convenience, we introduced flexible maturities and, with a thirty-day minimum, began offering customers the term of their choice on all accounts denominated in New Turkish Lira (YTL), US dollars and euros. We also became the first participation bank to join the Istanbul Gold Exchange and, leveraging that membership, began gram-based gold sales, offering gold as an alternative investment vehicle for retail investors via our branch network.

In another first for a Turkish participation bank, we introduced FX forward transaction. Our aim in doing this was to better serve our corporate and commercial customers, particularly importers and exporters, allowing them to hedge themselves against sudden fluctuations in exchange rates resulting from economic uncertainty.

With our 20th year rapidly approaching, we will continue to fund production and investment in the real sector in accordance with our founding objectives and operating principles. At the same time that we synchronize our rising service quality and product range to the competitive climate of the Turkish market, we will also concentrate, as our principles have always dictated, on bringing new alternatives to the Turkish financial sector, whether that be in retail, corporate or international banking. We will continue to generate sound growth by remaining true to the driving principles of our founding philosophy as we build on our solid banking operations.

Sincerely,

Ufuk Uyan  
Chief Executive Officer

## AN OVERVIEW OF OPERATIONS



### CORPORATE BANKING

In parallel with the steady growth of the Turkish financial industry in 2007, the KTPB Corporate Banking Sector had a strong year, successfully meeting its targets and, with new products introduced in the course of the year, maintaining its position as a leader in the industry. On the basis of its customer and sector segmentation strategy, the Corporate Banking Sector effectively put its funding resources to work to meet the needs of the real sector, expanding the range of its operations. At the same time that the cash credits, non-cash credits, foreign trade financing and other products offered by the Corporate Banking Sector helped to meet companies' funding needs, KTPB also helped to simplify and rationalize business processes in the industries it served. In addition, by actively promoting alternative distribution channels to its customers, the Corporate Banking Sector reduced costs and contributed to greater productivity and efficiency.

In 2007, non-cash credits accounted for 48 percent of the total portfolio of corporate and commercial credits. Corporate and Commercial Banking increased net fee and commission income by 63 percent over the previous year, at the same time that the number of active credit customers rose 55 percent as compared to 2006. Letter of credit volume rose by 126 percent to US\$ 1.214 billion, while cash credits were up 64 percent to US\$ 1.631 billion, with the Corporate Banking sector accounting for 48 percent of KTPB's total profit for 2007. With the construction and contracting industries continuing to be among the forces driving economic growth in Turkey, the

60 percent share of these industries in the KTBP non-cash credits portfolio secured important opportunities for the Bank in 2007, both domestically and internationally.

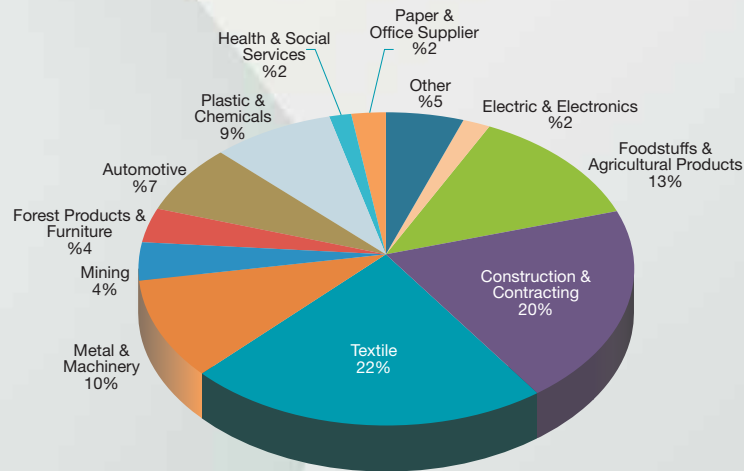
Maintaining its role as the leading source for new and innovative interest-free financial products, in 2007 KTPB introduced FX rate forward transactions. Designed particularly to meet the needs of the Bank's many customers involved in foreign trade, with this new product those customers now have the ability to hedge themselves against economic uncertainty and exchange rate fluctuations.

The Corporate Banking Department's strategic objectives include expanding the number of small and medium-sized enterprises (SMEs) in the corporate banking customer portfolio, increasing per-customer profitability, raising the share of fee and commission income in total income and focusing on growth through expansion of the Bank's non-cash credits business. In order to achieve these objectives, the Department will focus on effective management of its customer and credits portfolios, cross-selling, concentration on high quality customers, risk minimization and partnering multinational companies.

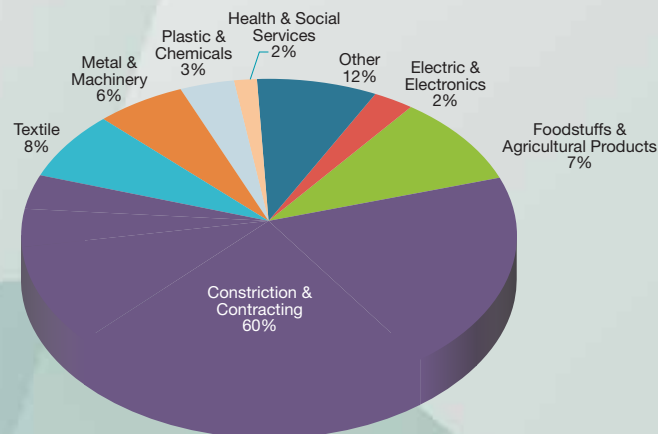
Due both to its commitment to pro-active marketing and customer building as well as to its emphasis on cutting-edge financial instruments, the Corporate Banking Department will continue to be a key contributor to KTPB's market standing and profitability.

## AN OVERVIEW OF OPERATIONS

### SECTORAL BREAKDOWN OF CORPORATE CASH CREDITS



### SECTORAL BREAKDOWN OF CORPORATE NON-CASH CREDITS



## CREDITS

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

In 2007, the Credits Department evaluated a total of 5,460 firms, conducting a thorough analysis of the company's finances, as well as the business logic behind the investment for which the placement or line would be used. All evaluations included a visit or visits to the customer's premises, analysis of financials and of the type of investment for which the requested funding limit would be used. Roughly 50 percent of the evaluations were positive and resulted in the renewal of limits for companies that have existing limits, limit increases or, for new customers, assignment of a new limit. New limits assigned in 2007

exceeded US\$ 1.7 billion, while renewals of existing limits and limit increases totaled in excess of US\$ 6.3 billion.

A total of 3,112 companies applied for a new funding limit and 65 percent of these applications were approved. KTPB credit experts apply proven and internationally accepted methods including customer visits, financial analysis, intelligence-gathering and reporting, followed by a complete analysis of the project in question, its redemption value and viability. The priority the Credits Department places on the highest standards of due diligence is one of the reasons that KTPB consistently enjoys one of the highest credit ratings in the Turkish financial market and recently had its rating by FitchRatings raised above that of the sovereign. As in 2007, the Credits Department, in 2008, will continue to draw on its superior infrastructure and experienced, professional staff to serve the best interests of the Bank at the same time that it provides KTPB customers with fast, responsive, high-quality service.



## AN OVERVIEW OF OPERATIONS



## RETAIL BANKING

KTPB, from a Retail Banking perspective, had a very strong year in 2007, including not only notable successes but also a number of important innovations. Drawing on its market experience and insight, KTPB both expanded its branch network and implemented change initiatives that included the addition of new products designed to meet shifting customer expectations. With this objective, existing products and service ranges were modified to better meet the need both of individual savers and entrepreneurs, with major strides being made in business lines including deposit collection, lending, credit cards and alternative distribution channels.

The Retail Banking Sector, both by providing added value investment and savings tools for retail customers and by promoting maximal levels of customer satisfaction, contributed 42 percent of KTPB's total profitability for the year. As of year-end 2007, the Retail Banking Sector (including SME Banking) had collected funds totaling US\$ 1.647 billion, 14 percent above its target of US\$ 1.450 billion. In addition, banking services income showed extremely satisfying growth with teller service income for the year totaling YTL 9.5 million.

Entrepreneurs and small businesses were a key segment in the Retail Banking strategy for 2007. Companies with annual turnover under YTL 3 million and credit limits not exceeding US\$ 200,000 are classified as Small and Medium-sized Enterprises (SMEs). The noticeable increase in credits extended to SMEs and the rise in the total value of these credits increased the importance of this target market. Consequently, this also drove an increase in profit sharing margins. Credits extended to SMEs were up 16 percent in 2007 to 230 YTL million. Rapid growth in the segment has made it a priority for 2008 with 100 percent growth being targeted for the year. At present SMEs account for 8 percent of total credits and their importance within the retail customer portfolio is increasing steadily, with growth in this segment expected to continue to be strong. Another area targeted for aggressive lending growth is home loans and other real estate credits. As of year-end 2007, retail credits accounted for 32 percent of KTPB's total cash credits, of which 8 percent were those extended to SMEs.

## AN OVERVIEW OF OPERATIONS

In 2007, retail deposits grew by 13 percent over 2006. One reason for this was another innovation by KTPB, the first participation bank to offer customers profit-sharing accounts with flexible maturities on YTL, US dollar and euro deposits, allowing customers to select the maturity of their choice for all deposits over 30 days. Another addition, in 2007, to the range of relevant and attractive products KTPB offers borrowers and savers was "Rent Financing", which provides important advantages for business owners facing punishingly high monthly rent payments. Business owners who apply for "Rent Financing" are able to secure significant savings by paying the full value of their annual rent in cash with convenience of then repaying the credit in easy installments tailored to their cash flow needs.

Gold has consistently been one of the top performing investment vehicles of recent years, and, thanks to the Retail Banking Sector's innovative vision, a number of new gold trading products have been introduced. KTPB is the first participation bank to become a member of the Istanbul Gold Exchange, allowing the Bank to offer its customers the chance to invest in gold without the risks associated with physical possession. As a Gold Exchange member, however, KTPB enjoys significant advantages over its competitors, because rather than buying and selling shares in a "gold fund", customers are able to buy, sell and conduct other transactions in gold in real time and at market rates. As an extension of this service, KTPB also began offering customers GoldChecks, certificates as valuable as gold and suitable for gifts at weddings and circumcisions that offer superior protection against loss or theft. Available for purchase at KTPB branches, these products have been enthusiastically received by the Bank's customer base.

In tandem with the expansion of its branch network, KTPB is also targeting growth in its credit card business, and with new features added to its existing card services, is looking to expand their share of retail credits, a goal toward which significant progress was made in 2007. One of the Bank's most strategically important plastic cards, the Sizcard, has developed rapidly during the three years since its introduction, with revenue for 2007 standing at

US\$ 19 million as of year-end. Sizcard offers its target audience important advantages and, in synchronization with other Retail Banking Sector products, began being offered as a value added proposition to customers seeking to enjoy these advantages. Another important credit card success story is the Business Sizcard, targeted at SMEs, which achieved major financial success in 2007. KTPB is targeting growth primarily in the commercial card segment and, at the same time that it looks to expand its product offering, is also focused on the operational business development of the "Payment Systems Department" established to handle all credit card operating processes under one roof. Within the framework of this initiative, major investments are being made in qualified personnel, training of existing personnel and technology as part of the development strategy for this department. The volume of transactions conducted through KTPB bank machines and POS credit card acquiring terminals is growing exponentially, bringing with it a parallel increase in service quality.

In 2007, the number of KTPB POS terminals installed reached 9,000, of which 2,500 are mobile POS terminals and the remainder are desktop units. In order to meet rising demand from merchants, a total of 173 new POS terminals were acquired. POS transaction volume of YTL 600 million is being targeted for 2008. As of year-end 2007, KTPB had a total of 87 ATMs installed, with a total of 690,000 transactions being conducted by the Bank's 47,000 ATM cardholders. ATM service projects implemented in 2007 include: envelope-free cash deposits, credit card payments, utility bill payments and sale of pre-paid mobile phone minutes by direct debit. The Retail Banking Sector plans to leverage the new branches to be opened in 2008 and make efficient use of KTPB's existing branch network to access long-term funds and strengthen its already close relations with its individual and SME customers to ensure the continued steady growth and high level of success of its operating results.



## AN OVERVIEW OF OPERATIONS



## INTERNATIONAL BANKING

The International Banking Sector, in addition to providing leading private sector companies with the funds they need to become internationally competitive, draws on KTPB's strong financial structure and the support of its largest shareholder, Kuwait Finance House, to successfully arrange large-scale international finance transactions, particularly in its home territory of the Gulf States. KTPB helped make important contributions to the Turkish economy, playing an active role in international construction and contracting credits, particularly in the Gulf Region, also providing a range of non-cash credits, including letters of credit, acceptance credits and credits by way of guarantee to importers and exporters, assisting them with funding and payments. Thanks to its extensive network of correspondents and international credit lines, KTPB is an internationally respected player that puts its strong reputation and contacts at the service of its clients involved in importing and exporting. KTPB's strategically important Bahrain branch, which had total deposits of US\$ 152 million as of 2006, achieved 38 percent deposit growth in 2007, closing out the year with deposits of US\$ 210 million.

In 2007, KTPB maintained its status as the Turkish participation bank with the largest network of international

relations, adding 67 new banks to its network, which as of year-end stood at 148 correspondent institutions in 75 countries around the world. The International Banking Department is in the process of completing the official procedures to convert KTPB's German Representative Office into a Financial Services Branch, which is expected to become fully operational in 2008. The International Banking Department is also seeking to expand the physical growth of the Bank's international operations, building on the success of the Bahrain branch as a vehicle for reaching Gulf States' domiciled funds and investors with the opening of a second Gulf Region branch in Dubai in 2008. The Department seeks to increase international banking activities on the part of both companies and individuals and serves as a coordination center facilitating relations between the branch network, the operations center and correspondent banks, providing periodic reports on transactions with correspondents as well as regularly monitoring information and document flow. In order to strengthen KTPB's international relations, correspondent visits were conducted throughout the course of the year, with the objective of signing new correspondent agreements and expanding existing ones, with projects being developed both for bank selection and acquiring limits.

## AN OVERVIEW OF OPERATIONS

### Treasury

At the same time that it managed liquidity and market risk within conservative limits, the Treasury Department exceeded its profitability targets for the year. With turbulence in the financial markets of unclear extent and duration, the Treasury plans to maintain and increase its sensitivity to risk management issues.

The FX risk management products developed by the Treasury for corporate customers in 2007 are a first among Turkey's participation banks. Gold transactions also rose following KTPB's membership in the Istanbul Gold Exchange, with GoldChecks being among the most popular of the products offered. Among the most exciting of the Treasury's projects for 2008 is a system that will allow customers to conduct equities transactions online.

### Investment Banking

The KTPB Investment Banking Department has a strong track record for arranging successful international syndication credits thanks to its close relations with the international markets and its extensive industry experience, a performance that the Department continued in 2007. As in previous years, the Department once again tapped the Gulf States markets to arrange a number of financial transactions of various sizes, making KTPB the partner of choice for a number of major financial institutions located in the Gulf Region. The Department's objective is to increase its transaction volume on an on-going basis, participating in a growing number of domestic and international transactions that allow it to expand its area of operations and maximize both its existing product line and its cutting-edge investment banking services.

The Department has made important contributions to the Turkish economy, particularly in dynamic sectors including energy, manufacturing and construction and, in this context, organized murabaha syndicated transactions totaling US\$ 110 million in 2007. The Department is committed to increasing the quality and quantity of its international syndications and this year further expanded its market share by maximizing the natural advantages in accessing Gulf States investors offered by KTPB's main shareholder, Kuwait Finance House, and KTPB's own Bahrain branch.

Offering customers products and services including murabaha syndications, club transactions and structured finance transactions, in an increasingly competitive market, the Investment Banking Department is working to develop a range of financial structures tailored to meet its customers' needs and expectations. One of the most exciting of these new products is "matched murabaha", which this year accounted for a significant portion of the Department's transaction volume. Particularly attractive as a financing vehicle for transactions involving Small and Medium-sized Enterprises (SMEs), this vehicle offers customers a number of important advantages.

## AN OVERVIEW OF OPERATIONS



## FINANCIAL CONTROL

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

The Financial Control Group is responsible for establishing the Bank's accounting records system, monitoring the proper functioning of that system and, if necessary, immediately correcting any errors, as well as confirming the accuracy of all data entering the system from any one of a variety of sources; the data that has been collected and confirmed, combined with data from other sources, is then used to create an accurate and forward-looking budgeting and reporting system that serves as a roadmap for the Bank by which progress is measured. The annual objectives and the plans developed in light of these objectives are clearly communicated to the branches and operating units. At least once a month, these plans are reviewed and if there are any deviations from them, the reasons for these deviations are identified and solutions developed, and, on the basis of these reviews, performance measurements are conducted. In addition to this, the Financial Control Group also provides both internal and external reporting.

### Accounting & Control

The Accounting & Control Unit consists of two sub-divisions, General Accounting and Financial Control.

The Accounting & Control Unit consists of two sub-divisions, General Accounting and Financial Control. The primary function of the Financial Control Unit is ensuring that the Bank has an adequate and secure accounting infrastructure, expanding and refining this infrastructure as necessary. Additionally, it is responsible for ensuring that all transactions are accurately recorded in the unified accounting system through daily, weekly and monthly spot-checks that, by immediately identifying errors, ensure that both internal and external reports are prepared using correct and reliable data.



## AN OVERVIEW OF OPERATIONS

Another important function of Financial Control is daily monitoring and analysis of the Bank's revenues and expenses, as well as calculating unit values and profit shares and ensuring that these are accurately reflected in customers' accounts.

As well as being responsible for the development and expansion of existing controls and for creating new control points, another of its responsibilities is to meet other divisions' requests for new accounting infrastructure or to provide accounting infrastructure for new products.

General Accounting, on the other hand, is essentially responsible for the following functions: to monitor the Bank's tax and other similar obligations and ensure that these are met, to handle payments of invoices for goods and services purchased by the Bank, attributing general overhead to the relevant departments and to make payment of expenses, travel allowances and advances to Head Office employees and to monitor these, to record fixed assets, value them, depreciate them, and handle redemptions and sales, as well as to conduct transactions for subsidiaries and assets being sold, and, along with reconciliations of general accounts, to monitor and conduct reconciliation of transactions conducted with the Bank's international correspondents.

The Accounting & Control Unit is in charge of finding solutions for issues related to accounting practices raised by branches and Head Office units, making recommendations to users and, as required, for providing training.

In addition, it is responsible for coordinating internal and external auditing procedures, providing information to the auditors and preparing information and documentation as required.

These services are provided by the Accounting & Control Units staff of 20 experienced bankers. In 2008, the Unit's objective is to emphasize training and to increase productivity, offering even higher levels of service and effectiveness.

### Budgeting & Reporting

One of the factors that make the Financial Control Group of such strategic importance is its responsibility for budgeting. The importance of budgeting, particularly in terms of management information and monitoring, has grown in parallel with the continuous expansion in the KTPB branch network, as well as in the Bank's balance sheet. The KTPB budgeting process is designed to use modeling of scenarios based on possible future events to ensure that the Bank's operations are proactive, productive and sound. The forward-looking and scenario-based budgeting process impacts every aspect of the Bank's business from its funding policy to every other transaction conducted. The budget

is a vital tool that is designed to allow the Bank to see the profits and losses of each individual branch, allowing them to be managed in accordance with KTPB's primary strategic objectives, as well as monitoring their performance on a consolidated basis.

The branch current account system to be implemented in 2008 will make it possible to monitor branch performance on a real-time basis. Additionally, the new budgeting program to be purchased in 2008 will introduce a new level of flexibility to the budget preparation process as well as making it possible, for a variety of purposes, to compare the budget with the actual results achieved. Moreover, the new budgeting program will make it possible to compare branch and operating unit expenses instantaneously on a detailed basis, allowing spending to be brought under control and over-budget expenditures to be eliminated.

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

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

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

# AN OVERVIEW OF OPERATIONS

## AUDIT AND RISK MANAGEMENT

### Risk Management and Treasury Middle Office Department

Risk Management procedures at KTPB are the responsibility of the Audit and Risk Committee, which reports to the Board of Directors, and are divided into Risk Management and Treasury Middle Office activities and Risk Management Policies. The activities of the Risk Management and Treasury Middle Office Department consist of ensuring application of Banking Regulation and Supervision Agency (BRSA) regulations and KTPB Risk Management Policies, established within the framework of the Regulation on Internal Systems and analysis and evaluation of the risks inherent in new products, business processes and key risk and performance indicators. Risk analysis and evaluation is done under the headings: Credit Risk, Operational Risk and Market Risk. Additionally, Liquidity Risk, Strategic Risk and Reputational Risk are closely monitored by the KTPB Risk Management System.

The Risk Management and Treasury Middle Office Department operates with a director and a staff of five experts. The top priority for the Risk Management and Treasury Middle Office Department in 2007 was KTPB's transition to the BASEL II standards. Within this framework, a project was undertaken for the acquisition of an integrated risk management software package that would meet the risk management requirements of BASEL II. Along with this, again within the framework of BASEL II, efforts were undertaken in conjunction with the Financial Analysis and Corporate Credits Departments to establish a corporate credits rating system. The Risk Management and Treasury Middle Office Department also played a key role in establishing the infrastructure for the calculation of Credit Risk with Advanced Methods. Another of Risk Management's important achievements in 2007 was its successful performance in the Quantitative Impact Study (QIS-TR2) Project organized by the BRSA. By means of this report, an analysis was made of the Bank's credit database and preparations and findings regarding the requirement at KTPB for a database in line with the requirements of BASEL II were undertaken.

The Department closely monitors both the Turkish and international literature on risk management, as well as all BRSA regulations and publications. Parallel to this, the Department organizes a variety of risk management training programs for different groups within the Bank with the aim of institutionalizing risk awareness.

The Risk Management Department prepares separate Credit Risk, Market and Liquidity Risk and Operational Risk Reports for the Audit Committee.

Market risk at KTPB derives from the FX, gold, equities and derivatives transactions conducted on the banking and trading accounts managed by the Treasury Department. KTPB's market risk reports are prepared in the format required by the BRSA using the Standard Method and submitted to the BRSA on a monthly basis.

Sources of risk, other than Treasury transactions, namely liquidity risk and interest rate risk are tracked and monitored using the reports submitted to the BRSA.

In parallel with the Bank's objective of working to the highest international standards and providing superior quality service, a Treasury Middle Office Department has been established within the Risk Management Department. Established on April 1, 2007, the Treasury Middle Office Department began operations in the beginning of June after the appointment of qualified personnel. Among its primary functions are providing independent checking of reports concerning the Treasury Department, ensuring, on the behalf of the Board of Directors, that transactions conducted by the Treasury fall within the limits set by the Board, confirming that Treasury transactions are in conformity with market prices, conducting limit related projects in conjunction with the other relevant units and preparing periodic reports along with them, as well as tracking Market Risk.

Within the Framework of Management of Operational Risk:

- A variety of presentations and surveys have been conducted both to identify the KTPB operational risk profile and build risk awareness
- A project has been implemented to establish an operational loss database in order to move to Advanced Measurement Approaches (AMA)
- Work undertaken through committees that have been established or are to be established regarding Emergency Situation Plans, Business Continuity Planning and Disaster Recovery Plans at KTPB
- A Self-Assessment of IT Risks
- Identification and monitoring of Key Risk Indicators (KRI).

## AN OVERVIEW OF OPERATIONS



### **Audit and Inspection Department**

The Audit and Inspection Department is responsible for evaluating the effectiveness and development of the Bank's risk management, control and governance processes within the framework of a disciplined and systematic perspective. The Audit and Inspection Department assists in ensuring that the Bank achieves its objectives by implementing a careful and systematic compliance and financial audit process that covers all areas of operations and units.

The Audit and Inspection Department, organizationally, is tied to the Audit and Risk Committee, which is responsible for Internal Systems, through the Chief Audit and Risk Officer, and reports to the Audit Committee on a periodic basis. The staff of the Audit and Inspection Department consists of a team of 22, including a Head, 3 Senior Inspectors, 1 Information Technologies Inspector, 5 Certified Assistant Inspectors and 12 Assistant Inspectors.

The risk-based audit plan is prepared on an annual basis, taking into account special inquiries, the provision of consultancy services, as well as training programs. At this stage, a risk matrix is prepared on the basis of an evaluation of operating and control risks that includes unit managers as well as subsidiaries subject to consolidation. After approval by the Audit and Risk Committee and approval by the Board of Directors, the audit plan is put into implementation. There are four different types of audit: Branch Network Audits, Head Office Unit Audits, Subsidiary Audits and Information Technologies Audits. A project-based approach is taken in terms not only of business development but also strategy, standards and methodology. In 2007, the Audit and Inspection Department completed its schedule of internal audits as planned, and additionally carried out investigations and administrative inquiries as required. Within this framework, activity reports were submitted to the Audit Committee and the Board of Directors on a quarterly basis.

Finalized audit reports, along with their executive summaries are submitted to the Bank's Senior Management, while executive summaries of the reports are distributed to the Audit Committee and the Audit and Risk Committee. Inspectors monitor the corrective measures implemented within the framework of their reports and, as necessary, make progress reports to the Audit and Inspection Department.

The Audit and Inspection Department takes a risk-focused approach to its operations and, in managing operational risks and credit risk, plays a key role in ensuring that the Bank's activities are in accordance with both internal and external regulations as well as in improving both efficiency and service quality.



## AN OVERVIEW OF OPERATIONS



### Internal Control Department

The Internal Control Department was established to design, apply, manage and monitor internal control activities and report the results to KTPB management in order to ensure that KTPB's operations are in accordance with internal and external regulations. In 2007, the Department applied a mixed strategy to expand control and risk consciousness within the Bank, using a combination of central control, monitoring and on-site control. Within this framework, whether via central or on-site control, the risk-focused evaluations conducted at the branches and Head Office departments fostered an improvement in the audit environment. Through central control, regulations and risk-bearing activities are monitored continuously; work procedures and new products are evaluated from a risk perspective, taking an active role in completing and fixing transaction execution procedures and job descriptions.

Within the 2007 annual control program, on-site controls were carried out in 55 branches and 3 Head Office departments. Whether as a part of on-site and/or central controls, the findings, opinions and recommendations generated by internal control activities are first shared and evaluated with the process-owner responsible for the operations and then reported to senior management of KTPB in one of variety of formats on the basis of the risk they entail, their importance and whether or not preventative or corrective action is required. For 2008, the aim is to carry out risk-based central and on-site controls, as planned in the annual audit schedule, in branches and Head Office departments.

## AN OVERVIEW OF OPERATIONS

### Compliance Department

The Compliance Department was established as a separate entity in December 2007, its responsibilities for ensuring that the Bank and its subsidiaries subject to consolidation establish a Compliance Policy in conformity with the existing structure and that this operates in an effective, adequate and suitable fashion, having previously been handled within the scope of the Internal Audit Department. The Compliance Department is also responsible for establishing and developing standards regarding Compliance Policy, as well as for conducting compliance audits within the framework of Article 18 of the Directive Concerning Banks' Internal Systems.

The Department is responsible for charging personnel at the Bank's international branches and subsidiaries subject to consolidation while monitoring changes in the relevant regulatory environments as well as ensuring compliance; these staff report directly to the Regulation and Compliance Department.

The Compliance Department has two primary functions:

The primary objective of the Regulatory function is:

- ◆ To track regulatory developments and make the required announcements
- ◆ To advise branches and Head Office departments on legal and regulatory issues
- ◆ To provide the relevant departments with support in preparing internal and external publications
- ◆ To identify precautions that can be taken to prevent actions in conflict with legal regulations and to take the lead in making the necessary changes to internal regulations
- ◆ To ensure the preparation of training programs required by legal regulations

The primary objective of the Compliance function is:

- ◆ To ensure that all activities conducted or planned to be conducted by the Bank, as well as all new transactions and products, are in compliance with legal regulations, internal policies and regulations and banking practices
- ◆ To report to the relevant authorities regarding monitoring of regulatory compliance
- ◆ To monitor that work plans established on the basis of reports by external auditors are implemented

The Compliance Department reports to the Audit and Risk Committee through the Chief Audit and Risk Officer.

# AN OVERVIEW OF OPERATIONS

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## OPERATION, TECHNOLOGY AND ADMINISTRATIVE SERVICES

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### Operations Center

The Operations Center conducts all operational transactions for the corporate, retail and international banking groups and, within this framework implements process management projects to improve efficiency and works to ensure that business processes are supported by technological infrastructure and effective systems integration. The Operations Center expands its functional structure in parallel with KTPB's constantly rising transaction volume, and the objective of the Center's team of experts and professional work flow is to provide customers with superior, uninterrupted, efficient service. At the same time that the Center maintains its high quality service, it also constantly seeks cost saving solutions.

Transaction volumes at the Operations Center were up by 17.25 percent in 2007. Foreign Trade transactions increased 50.69 percent, Credit Operations 19.28 percent, Treasury Back Office transactions 16.55 percent, Cash Management transactions 14.28 percent and Clearing transactions 16.68 percent. Transaction errors were reduced to 0.14 percent in FX transactions and 0.66 percent in Fund Utilization transactions. Transactions completed within one hour of receipt stood at 86 percent for Fund Utilization transactions and 93 percent for FX transactions.

The Operations Center had an extremely active year in human resources and training terms, with both written and visual materials as well as the documents on the KTPB intranet organized to be easily and quickly accessible to all operations staff. In addition, based on needs analysis assessment, 70 percent of branch operations staff received off-site training and all staff participated in three training programs via e-learning. During the course of the year, staff also took part in in-branch training programs and tellers were given courtesy and friendliness training. The Foreign Trade Unit provided Basic Foreign Trade Training to the retail sales team as a part of the Bank's strategy of targeting SMEs and also offered Foreign Trade Seminars to all Branch Managers and Corporate Sales teams as part of KTPB's efforts to increase Foreign Trade transaction volume. The Operations Center also began a personnel development program designed to provide qualified operations personnel for the Fund Utilization and Foreign Trade Units both at new and existing branches as dictated by business volumes. The Branch Coordination Team and Operations Center Unit Directors visited all KTPB branches in order to assess branch needs and requirements and begin developing solutions for those. Additionally, Operations Center Units undertook an infrastructure redesign targeting an increase in revenue generating features and began providing information and advisory services on foreign trade technical and regulatory issues regarding the Funding Limit allocation process, with the FX unit being particularly active in this respect.

As a reflection of the Bank's commitment to producing customer-centric solutions, a "Customer Satisfaction Unit" was established at the KTPB Call Center in 2007 to collect and design solutions for customer comments, complaints and suggestions. The Customer Satisfaction Unit quickly and conscientiously responds to all customer comments, complaints and suggestions, logging them in its records, and works with the responsible parties to generate solutions that, in turn, lead to improved customer satisfaction. The Customer Satisfaction Unit's fundamental principle is that a satisfied customer is a loyal customer, whose satisfaction radiates to those around them, generating long-term preference among potential customers. From the instant a Customer Complaint and Suggestion Entry is made into the Request Management System (Spectra), the entire process can be monitored minute-by-minute and fully reported to the relevant departments and customers.

With the implementation of VOIP telecommunications infrastructure in 2007, calls to KTPB branches are automatically diverted to the call center, with the result that calls that can be handled directly by the Call Center are not routed back to the branch. In the event that the customer's call does need to be transferred to the branch, the Call Center employee connects the call directly to the relevant member of the branch staff.

In 2007, banking transactions conducted by the Call Center were up 60.70 percent, with a 30 percent increase in the value of the transactions. Received calls increased by 12.30 percent over 2006 and resolved calls rose by 41.45 percent. The KTPB Call Center took on POS and ATM support functions, as well as beginning telemarketing operations, an area where the Center plans to be more active in the future.

## AN OVERVIEW OF OPERATIONS



As a part of the Document Management System, scanned images of guarantees posted by clients, including checks, bills and the like are sent to the Operations Center where they are evaluated by the Center's Data Entry team before being entered into the system. Also, submission of answers to inquiry and evaluation documents from official bodies as well as periodic statements provided to the Ministry of Finance have been transferred from the Retail Banking Sector to the Operations Center.

Customer documents submitted for collection as well as FX-denominated checks issued on other banks are put into collection only after submission to the Operations Center's Clearing Service, thus centralizing the customer bill and FX check workload. As required by article 711/3, systematic infrastructure was established for processing customers' stop payment orders; this was done working in coordination with the Retail Product Development Unit and, as of year-end, this system had produced an increase in branch commission income.

With the aim of improving workflows at the branches, a card-based system was installed on KTPB's Q-MATIC queuing control system, and screens allowing branch workload and capacity measurement to be conducted using the system were added to the banking menus. Branch operational ratings reflecting branches' performance in areas including customer satisfaction, cost, risk, speed, quality, capacity, efficiency and improvement have begun to be distributed to the branches. Errors and deficiencies indicated in Audit and Internal Control branch reports are sent to the relevant branch personnel via Spectra along with instructions for remedial steps to be taken. An "Employee of the Month" is selected on the basis of speed and accuracy from among branch and Operations Center staff and then announced on the KTPB HR Portal. Branches were sent training notes on operational subjects and in-branch training and professional development seminars on subjects like foreign trade, credits, current account transactions, banking law and letters of credit were held in coordination with the Human Resources Department.

After reviewing KTPB's insurance practices, a study regarding the insuring of its projects and security by the Bank was conducted and put into practice. All project documents regarding Foreign Trade and Credit Operations have begun being archived in the Document Management System and displayed in conjunction with the relevant project entry.

In recognition of their achievement of a 96 percent accuracy rating in Straight-through Processing (STP) of international money transfers they handled, the KTPB International Transactions/FX Unit was honored with a quality achievement award from Citibank.



## AN OVERVIEW OF OPERATIONS

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### **Information Technology**

The Information Technology Department continued to expand KTPB's banking automation processes with applications effectively employing the latest technological innovations. The Department focused on projects designed to move IT from being merely a support service to being a key factor in assisting the Bank to achieve its strategic objectives. Within this framework, emphasis was placed on solutions that improved the effectiveness and efficiency of business processes, focusing on solutions designed to improve KTPB's competitive advantage.

In addition to small and medium-sized development projects carried out regularly to meet the needs of the Bank's automation system, 44 major projects were completed in 2007 and 10 were brought to the beta-testing stage. Among the most important of the projects completed in 2007 were:

**Corporate Content Management:** In 2007, in keeping with the IT Department's vision of minimizing paper consumption, development of electronic document management systems and their implementation into the Bank's business processes was accelerated, with documents being sent from the branches to the Head Office in electronic form and archived electronically.

## AN OVERVIEW OF OPERATIONS

**Customer Focused Systems:** As a part of the implementation of the Customer Relations Management (CRM) System, Customer and Product Productivity systems were prepared and, by calculating customer profitability levels, an added competitive advantage was secured by making it possible to offer consumers customized packages of products and services. Additionally, thanks to the portfolio management system developed for sales representatives, a measurable improvement was achieved in customer relations management.

**New Banking Products and Services:** Technological infrastructure and automation services were developed for the new banking products and services introduced in 2007. Examples include: GoldChecks, Mortgages, Istanbul Gold Exchange Transactions, Rent Financing, the Decreasing Profit Share System, Utility Bill Collection System and updating of the ATM System.

**Customer Complaint Tracking System:** Customer satisfaction was increased with the development of a system that allows the central logging of all customer requests and complaints, as well as forwarding them to the relevant unit and facilitating follow-up.

**7/24 Helpdesk Application:** The Helpdesk application, designed by the IT Unit to assist KTPB personnel in using banking automation systems and technology, was updated to provide service 24 hours a day and seven days a week at the same time that the support personnel headcount was increased to reflect the overall increase in Bank personnel.

**Replacement of Main Banking System Servers and Branch Network Cabling:** The servers used to operate the Banking Automation System and the network cables connecting the Head Office and branch network were evaluated in light of increasing traffic and upgraded to higher capacity before this issue reached critical and potentially harmful levels, allowing KTPB to provide its customers with faster, more reliable service.

The Information Technology Department provides KTPB's business units with services designed to develop their business processes and improve their competitive advantage; as part of the Department's vision of technological leadership, it places the utmost emphasis on on-site training and working with the most qualified personnel, ensuring that its technology development processes are in line both with market conditions and the latest technology, keeping KTPB at the cutting-edge.

Efforts to increase compliance of KTPB's IT processes to the highest international management standards continued in 2007 with necessary processes and procedures being updated.



## AN OVERVIEW OF OPERATIONS



### Administrative Services

In 2007, KTPB opened nine new branches, bringing its branch network to a total of 87. The new branches, featuring the new KTPB branch concept, were opened in the Istanbul districts of Esenler, Bayrampaşa Mega Center, Sultanbeyli, İhlamurkuyu and Tuzla, the Sincan district of the Turkish capital Ankara, the Nilüfer district of the major manufacturing center Bursa and the Anatolian cities of Adapazarı and Kahramanmaraş. In 2007, two Istanbul branches, Osmanbey and Laleli and branches in four Anatolian cities, Afyon, Aziziye, Isparta and Manisa, were redesigned to meet the full range of customer needs in accordance with the new KTPB branch concept.

As a part of the Administrative Services Department's effective cost management policy, in addition to the 12 locations, including the Head Office and Operations Center, already connected to the KTPB VIOP network, in 2007 an additional 33 branches were brought on-net. In this fashion, calls coming to these branches are directly routed to the KTPB call center, increasing the effectiveness of the call center while simultaneously reducing the telephone and workload on these branches resulting from routine retail banking customer queries. Moreover, as a part of this system, the communications infrastructure at 44 branches was connected off-net via the backbone of a contracted alternative telecommunications provider. As a result of the on-net component of the VOIP project, telephone communication costs have been reduced by approximately 30 percent at locations where the system is installed, while also securing no-cost communication between these locations. Cost savings at locations in the off-net component of the project average 15 percent.

## AN OVERVIEW OF OPERATIONS

In 2007, the Administrative Services Department implemented a project whereby all internal requests from branches and Head Office departments are submitted and monitored by the automated KTPB Request Management System. This program simplifies the routing of requests to the proper service unit and relevant individual and generates substantial time savings in the supply and solution process. As a result of this system, which was designed to improve service quality and ensure that internal customer requests are fulfilled in an accurate, problem-free and interactive fashion, all department and branch service requests are tracked using the Administrative Services Request Management System (Spectra).

One of the most important projects of 2007 was making it possible for the security cameras at all KTPB branches to be monitored from a single location. The implementation of this project means that all branches are monitored by the Head Office Security Center around the clock, making immediate intervention possible. In the Mobile Banking and GPRS applications project, working in conjunction with the Information Technology (IT) Department and IT consultants, a Mobile Banking Service Provision and Infrastructure Installation has been signed with Turkey's largest mobile communications provider and the PDA supply phase has been completed. These types of technological investments and devices are used in every part of life and provide not only significant time savings but also substantial competitive advantage and, in synchronization with banking applications, will continue to generate new opportunities.

All purchases of fixtures and equipment to meet the Bank's needs, in addition to being subject to significant discounts, were also made via leasing at more than acceptable funding costs. The VAT advantage secured in this fashion generated a significant savings for the Bank.

The implementation process for the modern archiving system introduced at KTPB's branches was successfully completed, and branch personnel received both theoretical and applied training in the use of the system.

With the completion of the program integrating the Administrative Services Correspondence Service into the Filenet system, transmission and circulation of high level documents is now conducted in a digitally recorded and monitored environment.

## MEMBERS OF THE BOARD



**Mohammad S.A.I. Al Omar**  
Chairman of the Board

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



**Abdullah Tivnikli**  
Vice Chairman of the Board

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



**Adnan Ertem**  
Member of the Board

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



**Kenan Karadeniz**  
Member of the Board

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



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

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



**Fawaz Al Saleh**  
Member of the Board

A graduate of the Business Administration-Economics Department of McAlester College in the USA. Joining Kuwait Turkish Participation Bank as a member of the Fund Management Department in 1996, Al Saleh served as Deputy General Manager of Kuwait Turkish Participation Bank between the years 2001-2006. He was appointed a Member of the Board of Directors in October 2006 and also serves as the president of Kuwait Finance House's Turkey Office.



**Khaled N. Al Fouzan**  
Member of the Board and the Audit Committee

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



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

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



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

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

## SENIOR MANAGEMENT



**From left to right**

**Bilal Sayın** Chief Credit Officer, Credits

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

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

**Ufuk Uyan** CEO

**R. Ahmet Albayrak** Executive Vice President, Operations, Technology and Administrative Services

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

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



## SENIOR MANAGEMENT AND AUDITORS

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

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

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

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

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

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

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

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

**Bilal Sayın** Chief Credit Officer, Credits

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

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

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

**R. Ahmet Albayrak** Executive Vice President, Operations, Technology and Administrative Services

A graduate of the Istanbul University Industrial Department of Engineering, he received a master's degree in Organizational Leadership and Business Administration from the University of North Carolina, USA. Joining Kuwait Turkish Participation Bank in 1994, he served in the Financial Analysis and Marketing units until 1996. Continuing his career in various firms as consultant, Member of the Board of Directors and Managing Director, Albayrak returned to Kuwait Turkish in 2002 as Deputy Assistant General Manager Responsible for Branch Operations. He was appointed Executive Vice President responsible for Operations, Technology, and Administrative Services in 2005. In 2007, Albayrak completed his dissertation in Business Administration at Istanbul Technical University and was awarded his doctorate.

### AUDITORS

**Ayhan Bayram** Member of the Board of Auditors

Born in Niksar in 1966, he graduated from the Sivas Cumhuriyet University, Tokat School of Agriculture Vocational High School Accounting program. In 2002 he graduated from the Anadolu University Faculty of Management. From 1991 – 1993 he served as Personnel Director at several private sector companies. In 1993, he was appointed Chief Accountant of the Tokat Başçiflik Municipality, a position in which he served through 2005. In the same year, he was appointed Assistant Regional Director of the Ankara Foundations Regional Directorate of the Turkish Directorate of Foundations. In 2008 he was appointed a Member of the Board of Auditors to fill the seat left vacant by Prof. Dr. Sabahattin Zaim.

**Güven Obalı** Member of the Board of Auditors

Born in Konya in 1943, he graduated from the Ankara University Faculty of Political Science in 1964. In the same year he passed the Ministry of Finance's Assistant Auditor's exam and in 1967 passed the Auditor's exam, taking the title of Auditor. From 1971 – 1972 he was based in Germany, working to adapt the Value Added Law to Turkey. Resigning from his position at the Ministry of Finance in 1975, he took a position at the Turkish Industrial Development Bank, Incorporated, where he served in various executive capacities before retiring in 1994.

**Ömer Asım Özgözükara** Member of the Board of Auditors

Born in Gaziantep in 1942, he is a graduate of the Ankara University Faculty of Political Science. In 1998, he served as a Chartered Accountant at Koza Chartered Accountants and has been a member of the Board of Auditors of Kuwait Turkish Participation Bank, Incorporated since 1998.



## EXECUTIVES ACTIVE IN INTERNAL OPERATIONS & COMMITTEES REPORTING TO THE BOARD OF DIRECTORS AND AUXILLIARY COMMITTEES

### Management of Audit and Risk Systems

Name	Position	Date of Appointment	Education
Adnan Ertem	Member of the Board	18.10.2002	Doctorate
Azfar Hussain Qarni	Member of the Board	23.05.2003	Masters
Khaled Nasser Abdulaziz Al Fouzan	Member of the Board	02.08.2006	University
Shaheen Hamad Abdulwahab Al Ganem	Member of the Board	18.12.2006	University
Hüseyin Cevdet Yılmaz	Chief Audit and Risk Officer	25.07.2002	University
Bahattin Akça	Chairman of the Board of Internal Auditors	01.08.2007	University
Tamer Selçuk Durman	Head of Risk Management and Internal Control	25.07.2002	University
Fadıl Uluişik	Acting Head of Internal Control	01.12.2007	Masters
Vefa Okan Arık	Acting Head of Compliance	01.12.2007	University

Board of Directors Auxiliary Committees;  
Internal Systems Committees;

### Audit Committee

Name	Position	Date of Appointment	Education
Azfar Hussain Qarni	Member of the Board	26.10.2006	Masters
Khaled Nasser Abdulaziz Al Fouzan	Member of the Board	26.10.2006	University

#### Duties and Responsibilities:

- ◆ To regularly receive and monitor reports from the Internal Control, Internal Audit and Risk Management Systems units and independent auditors regarding the execution of their duties.
- ◆ To notify the Board of Directors of any issues that could negatively impact the continuity and security of the Bank's operations or of any issues that are in contravention of either legal regulations or internal policy.
- ◆ To inform the Board of Directors, not less than semi-annually, on the basis of its activities, of its views regarding any precautions that must be taken at the Bank, any steps that must be implemented and any other issues that it feels are important for the sound functioning of the bank.

## Audit and Risk Management Committee

Name	Position	Date of Appointment	Education
Adnan Ertem	Chairman, Member of the Board	29.03.2007	Doctorate
Azfar Hussain Qarni	Member of the Board	29.03.2007	Masters
Khaled Nasser Abdulaziz Al Fouzan	Member of the Board	29.03.2007	University
Shaheen Hamad Abdulwahab Al Ganem	Member of the Board	29.03.2007	University

### Duties and Responsibilities:

- ◆ To establish in writing the strategies, policies and methods of operations of units and departments falling within the scope of Internal Systems and to ensure the effective implementation and continuation thereof
- ◆ To ensure the coordination between units and departments falling within the scope of Internal Systems
- ◆ In a timely fashion to take remedial action to correct errors or deficiencies in Internal Systems procedures identified either by the Banking Regulation and Supervision Agency or by the Independent Auditors and to notify the Board of Directors thereof
- ◆ To evaluate said error or deficiency and provide for analysis of other areas of operations where the same or similar deficiencies or errors could arise by the control and internal audit functions

## Corporate Governance Committee

Name	Position	Date of Appointment	Education
Adnan Ertem	Member of the Board	24.07.2007	Doctorate
Shaheen Hamad Abdulwahab Al Ganem	Member of the Board	24.07.2007	University

### Duties and Responsibilities:

- ◆ The responsibility of the Corporate Governance Committee is to ensure compliance with Corporate Governance Principles and to observe the actions taken, to undertake improvement activities in this regard and to make suggestions regarding Corporate Governance to the Board of Directors.

## Basel II Compliance Committee

Name	Assignment
H. Cevdet Yılmaz	Chief Audit and Risk Officer
Bilal Sayın	EVP – Credits
R. Ahmet Albayrak	EVP – Operations, Information Technology, Administrative Services, Human Resources
İrfan Yılmaz	EVP – Retail Banking
Ömer Karakuş	Head of Corporate and Commercial Banking and Sales
Ali Akay	Head of Accounting and Control
Tamer Selçuk Durman	Head of Management and Treasury Monitoring
Erdal Özbilir	Director of Corporate and Commercial Credits

### Duties and Responsibilities:

- ◆ Within the framework of the Basel II principles and the BRSA's regulations on this subject, to review KTPB's strategies, policies and processes and submit the final working document to the Senior Management and Board of Directors.

### Other Auxiliary Committees

#### Executive Committee

Name	Assignment
Mohammad S.A.I. Al Omar	Chairman of the Board
Abdullah Tivnikli	Vice-Chairman of the Board
Ufuk Uyan	CEO and Member of the Board

### Duties and Responsibilities:

- ◆ To undertake all duties entrusted to it by the Board of Directors.
- ◆ This Committee is authorized as the deciding body in all purchasing decisions involving equipment and fixtures, real property with values up to 10 percent of shareholders' equity, project participations, partnerships and investments.

### Credit Committee

#### Name

#### Assignment

Mohammad S.A.I. Al Omar  
Abdullah Tivnikli  
Ufuk Uyan

Chairman of the Board  
Vice-Chairman of the Board  
CEO and Member of the Board

#### Duties and Responsibilities:

- ◆ The Credit Committee is authorized to approve credits with values of up to 1 – 10% of shareholders' equity.
- ◆ The Committee must meet with all members in attendance.
- ◆ All decisions reached by a unanimous vote go into force immediately. All decisions reached by majority vote go into effect after ratification by the Board of Directors.
- ◆ All decisions of the Committee are to be recorded in the Decision Book. The Credit Committee Decision Book is to be maintained according to the proper methods and procedures.

### Asset & Liability Committee

#### Name

#### Assignment

Ufuk Uyan  
H. Cevdet Yılmaz  
Tarık Tüzün  
A. Süleyman Karakaya  
Ahmet Karaca  
Bilal Sayın  
İrfan Yılmaz  
R. Ahmet Albayrak

CEO and Member of the Board  
Chief Audit and Risk Officer  
Head of Treasury  
EVP – Corporate and Commercial Banking  
EVP - Financial Control  
EVP - Credits  
EVP – Retail Banking  
EVP - Operations, Information Technology,  
Administrative Services, Human Resources

#### Duties and Responsibilities:

- ◆ This is the senior management committee responsible for the Bank's assets and liabilities and its financial management. The committee meets on a weekly basis.

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

In 2007, Kuwait Turkish Participation Bank had the best and most successful year in its entire 18-year history. The first indication of this success was the decision by the international credit ratings agency FitchRatings not only to raise KTPB's credit note but also make KTPB the only participation bank whose credit rating was revised upwards to reflect the increase in Turkey's sovereign credit rating. In its most recent evaluation, Fitch awarded KTPB a long-term local currency rating of BBB- with a stable outlook and a long-term FX rating of BB, also with a stable outlook.

As of December 31, 2007, KTPB had paid-in capital of YTL 260 million, total assets of YTL 3.86 billion and a capital adequacy ratio of over 14 percent, well above the level required by the Basel II International Accounting Standards. Its sound capital structure allowed KTPB to increase its assets by 31 percent to YTL 3.86 billion and increase deposits collected by 28 percent as of the end of the year. However, even more importantly, KTPB's greatest achievement was to increase profitability by 68 percent to YTL 67.078 million at the same time that it made major investments in the expansion of both its branch network and its product range. The impressive increase KTPB achieved in profitability ranked it number one among Turkey's participation banks for growth in earnings.

The KTPB branch network grew in 2007, adding a total of nine new branches and bringing the total network to 87 branches spanning all of Turkey and allowing the Bank to provide effective, value added banking and financial services nationwide, with high levels of concentration in Turkey's key centers of economic growth and activity: Istanbul, Ankara, Bursa, Kayseri and Konya. Employing a total of 1,799 staff, the branch network is KTPB's most valuable sales channel and a central factor in the strong image of professionalism, probity and expertise that the Bank presents to the public.

Innovation has always been a quality on which KTPB placed the utmost emphasis, an element in the corporate culture that has played a significant role in making the Bank a leader in interest-free finance in Turkey. KTPB, for instance, was the first to introduce a truly interest-free plastic card with revolving credit, the Sizcard. KTPB maintained this level of innovation, introducing "Esnaf Finans", a package of bundled financial services for Turkey's dynamic tradesmen and entrepreneurs. In 2007, the emphasis was on SME credits, with the result that by year's end credits of this type accounted for 25 percent of total retail lending. Thanks in part to its exciting range of new products and services, the KTPB Retail Banking Division accounted for more than 30 percent of KTPB's total assets, a percentage that is expected to increase every year. Growth and innovation, however, were not limited to the Retail Banking Division. In Corporate and Commercial Banking, KTPB saw assets grow by 33 percent to US\$ 1.8 billion, driven by strong relationships with existing customers and effective recruitment of new customers. International Banking also posted excellent results, building on KTPB's leading position in interest-free non-cash credits and the Bank's network of 218 correspondent banks and finance houses in 93 countries, as well as SWIFT agreements with a total of 496 banks. At the beginning of 2007, with the signing of a US\$ 200 million murabaha syndication credit, which was oversubscribed by 160 percent, KTPB inked a transaction that was the first of its kind and opened up a new era in Turkish interest-free finance.

With the majority of its profits for 2007 added to its capital as retained earnings and a further capital increase slated to take place during 2008, further strengthening the Bank's already excellent capital structure, KTPB is looking forward to continuing to build on the successes it achieved in 2007. The planned capital increase will give KTPB an even more outstanding capital adequacy ratio, giving KTPB the resources to step-up the speed of its expansion program. The branch network will be expanded by 25 branches, and the emphasis on new product development will be increased, as KTPB works to bring savers, investors and borrowers a wider range of products tailored to their needs and to the changing dynamics of Turkey's fast-growing economy. At the same time, KTPB will continue to emphasize Alternative Distribution Channels and to set the pace of technological change and advancement among participation banks.

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

Respectfully,  
The Board of Directors



## HUMAN RESOURCES PROCEDURES

KTPB, in parallel with its expanding branch network and growing transaction volumes, in 2007 continued to invest in what is unquestionably its most important resource: people. KTPB is committed to maximizing employee satisfaction and, to this end, has invested in the latest technology in order to implement world standard Human Resources programs and facilities.

KTPB is the employer of choice for promising, confident, innovative bankers who see their careers being in interest-free banking and who believe in quality service and creating added value. In the hiring process, the Hiring Team applies competency-based models and, following hiring, employees' career development is closely monitored and directed.

KTPB personnel are on average 31 years old, and 85 percent hold a university degree or higher. Personnel rolls grew by approximately 33 percent in 2007, totaling 1,799 by year-end, with a 30 percent increase in personnel numbers expected for 2008.

In parallel with KTPB's rapid expansion of its branch network, a Management Trainee Program has been established to cultivate and nurture the talented recent graduates who will be the building blocks of tomorrow's management team. Selected from Turkey's leading universities, candidates undergo an intensive recruitment process that includes competency-based group interviews, case studies and personality tests and, as trainees, participate in an extensive training program including rotations in all major departments of the Bank. KTPB Management Trainees enjoy a competitive compensation and benefits package, and particular emphasis is placed on nurturing their management skills, with opportunities being available, within the framework of their personal development plans, to earn MBA degrees as well as to participate in Management Trainee training programs, internationally and in Turkey, that have been designed exclusively for KTPB.

KTPB has adopted a performance based compensation model, and employee salary increases are based on a combination of inflation, market conditions and individual performance. Additionally, in order to provide for employees' well-being, comfort and to enable their personal development, the Bank provides a wide range of social assistance and welfare programs that are in keeping with market standards. These social assistance programs constitute an important portion of the overall compensation package and include private health insurance, performance bonuses, transportation and meals and a variety of other benefits.

KTPB employees are evaluated on the basis of a target and competency based performance evaluation system and those who achieve the required levels of professional and personal development and expertise have the opportunity to advance to the highest levels of the Bank's management. In 2007, a total of 300 employees who demonstrated the highest levels of talent, professional knowledge, skill and experience were promoted to the next level in KTPB's multi-level career track.

KTPB closely monitors its employees' training and development needs and invests in ensuring that it has the human resources to develop the most effective solutions for its customers, a dedicated team of experts able to differentiate the bank in this competitive market on the basis of their banking knowledge and experience. Newly hired staff, before beginning work, are given an intensive orientation covering both banking and KTPB's principles and procedures. In 2007, over 500 new employees received, on average, 25 days of basic banking training. Existing employees benefit from training programs both in Turkey and abroad, and their training is guided by career development plans based on the future responsibilities they are likely to hold. A total of 7,083 days of training was provided in 2007 in a range of subjects including banking, management, finance, law and personal development, with the average number of training days per employee being 5.5. The online training program, which was implemented in 2006, continued in 2007 with a total of 4,300 online training modules being completed by KTPB staff. KTPB closely monitors the career development of its current executives and those employees with executive potential and, within the framework of the Bank's plans and objectives, offers executive development programs designed to groom new executives.

In parallel with the latest developments in Human Resources Management technology, in 2006 an Oracle HR package was put into operation that allows managers, their direct reports and the HR Department to share the same self-service platform. In 2007, the Oracle Training Management System was brought online allowing employees to participate interactively in the Human Resources Department's training processes.

## FINANCIAL INFORMATION AND RISK MANAGEMENT PROCEDURES

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Information regarding transactions conducted within the Risk Group of which the Bank is a member is provided in detail in Section 7 of the Independent Auditor's Report.

## OUTSOURCED SERVICES

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Within the framework of the Regulation on the Acquisition of Support Services by Banks and the Authorization of Service Provider Companies, the following services are currently being outsourced:

Provus Technology Services, Inc.: Printing of bank and credit cards, statement printing and delivery to the PTT.

Securicor Verdi Security Services and Trade Inc.: Pick up and delivery of closed and sealed moneybags.

## BOARD OF AUDITORS' REPORT

TO THE GENERAL SHAREHOLDERS' ASSEMBLY OF KUWAIT TURKISH PARTICIPATION BANK,  
INCORPORATED

### 2007 BOARD OF AUDITORS REPORT

Having audited all the accounts and operations of Kuwait Turkish Participation Bank for the year 2007 with respect to compliance with the Turkish Commercial Code, the Articles of Incorporation of the Bank and other related regulations; we have concluded that the Bank's Balance Sheet and Income Statement and other records are in full conformity with the corresponding records and documents respectively.

Having reached this conclusion, we kindly request that you approve the Balance Sheet and Income that were submitted to the Board of Directors, and we also consent to the proposal of the Board of Directors for the disbursement of the net profit.

Respectfully,

Güven OBALI



Ö. Asım ÖZGÖZÜKARA



Ayhan BAYRAM



## FINANCIAL INFORMATION AND RISK MANAGEMENT POLICIES

### INTERNAL AUDIT AND RISK MANAGEMENT EVALUATION REPORT

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

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

The internal regulations for the units falling within the scope of Internal Systems: Internal Audit, Internal Control and Risk Management, were prepared by the Audit and Risk Committee in line with the recommendations of our Committee in accordance with the provisions of the "Regulation Concerning the Internal Systems of Banks", which went into effect on November 1, 2006, and said internal regulations went into effect following their approval by the Board of Directors on January 30, 2007. The units falling within the scope of Internal Systems, within the context of the aforementioned regulations, the Basel II Roadmap and an integrated risk management and risk oriented auditing approach continue to operate with maximum effectiveness. Also in 2007, in place of the existing Member of the Board Responsible for Internal Systems the new Audit and Risk Committee consisting of four non-executive Members of the Board of Directors was established and its operating procedures set by the Regulation on the Audit and Risk Committee. Within the framework of the newly established organizational structure, as of January 30, 2007, the Internal Audit, Internal Control and Risk Management Directorates report to our Committee, which serves as the Head of Internal Systems. Additionally, in 2007, the Regulation and Compliance Unit was restructured within the framework of Internal Systems to monitor regulatory developments and ensure our Bank's regulatory compliance. This unit is responsible for KTPB's Regulatory Policy and reports to our Committee. The Audit Committee met with the Internal Systems units on a bi-monthly basis for evaluation meetings, whose agenda was as specified in the Regulation on the Kuwait Turkish Participation Bank Audit Committee and in these meetings reviewed subjects related to the Bank's risk profile and audit standing.

Respectfully,

Azfar Hussain Qarni  
Audit Committee Member



Khaled N. Al Fouzan  
Audit Committee Member





## FINANCIAL STATUS, PROFITABILITY AND SOLVENCY EVALUATION REPORT

Kuwait Turkish Participation Bank, as of year-end 2007, increased its assets by 32 percent to YTL 3,868,000,000 and increased its shareholders' equity by 57 percent to YTL 389 million. In parallel with this, the Bank's capital adequacy ratio stood at 14.72 percent, well in excess of the legally required limits. The Bank will continue to use its resources effectively and to increase its profitability. Detailed information about the Bank's financial status, profitability and solvency can be found in the Independent Auditor's Report section of this Annual Report.

## RISK MANAGEMENT POLICIES APPLIED ON THE BASIS OF RISK TYPE

### Credit Risk Management Policies and Procedures:

The objectives of the KTPB credit risk policy are to measure the counterparty risk incurred in credit transactions, monitor risk on the basis of the Bank's limits and legal limits, research methods and techniques for measuring and controlling risk, track overdue receivables, analyze reasons for delinquency and to take steps to prevent their repetition.

It is imperative that credit policies be managed and monitored by the Bank's Senior Management within the framework of the CRD/Basel II document, taking into account the views of the BRSA. The Risk Management and Treasury Monitoring Directorate works in conjunction with Senior Management to identify and implement these strategies.

The Credit Risk Policy contains explanatory information regarding customer selection, credit issuance authority, transfer of authority, the organizational structure of the credit committee, credit limits, provisions and security, limit assignment principles, risk monitoring-control and process improvement, major risk points, new product risk analysis and risk reduction precautions for risk points.

### Market Risk Management Policies and Procedures:

The objective of the KTPB Market Risk Policy is to minimize risks resulting from trading in FX, gold, equities and derivatives in the banking and trading accounts and to minimize the impact of exposure to structural interest rate risk in the process of achieving targeted profitability and growth and therefore to maintain the Bank's capital adequacy.

Market risk is managed by application of limits set by the Asset-Liability Committee and approved by senior management, consultation from the Risk Management and Treasury Monitoring Departments and the Asset-Liability Committee, portfolio diversification on the basis of short-term and long-term market outlooks constantly updated to reflect market conditions and trends.

Acceptable risk levels in treasury operations are established by way of management approved customer limits, transaction limits, permitted transaction types, counterparty and country limits. In order to avoid excessive market and liquidity risk the Bank "Marks to Market" its liquidity position, equities and FX position and profitability, daily profit-loss standing and the balance in its nostro accounts on a daily basis. In addition, by way of a maturity gap analysis report prepared on a weekly basis, the Asset-Liability Committee closely monitors the Bank's maturity gap risk. In the event that positions are established that exceed the Bank's risk limits, the Treasury Department engages in hedging transactions in order to bring the positions and gaps to levels that are acceptable from a risk point of view.

## RISK MANAGEMENT POLICIES APPLIED ON THE BASIS OF RISK TYPE

As a result, Market Risk is managed with a system of limits and reports based on the principles outlined below:

- (a) Ensure that the concepts of risk management function in practice.
- (b) All risk-taking activities must be aligned with the Bank's capacity to absorb risk.
- (c) Risk-taking levels must be on a par with the ability to absorb risk of both the markets in which the risk is taken and the unit within the organization taking the risk.

### Operational Risk Management Policies and Procedures:

In order to ensure that they are in conformity with the Bank's operational risk policies and procedures, the Bank's business units provide the operational risk management staff with sufficient resources to perform their risk management and monitoring functions.

Operational risk points, just as they are responsible for purchase of insurance coverage and management of utilization of external resources by third parties, must also be responsible for effective communication with personnel responsible for managing credit, market and other risk. In practice, just as the Bank's operational risk environment reflects its organizational structure, it also reflects the operating areas in its business lines and their challenges. It is crucial that the Bank's operational risk profile and existing risk management evaluate risks on their extent and level of importance and manage them in proportion to the size of the Bank itself.

The Bank's operational risk management procedures include key elements such as suitable policies and processes, studies to define and measure operational risk, a highly functioning internal control system, and effective testing and monitoring of operational procedures.

## RATINGS ISSUED BY INTERNATIONAL RATING INSTITUTIONS

Evaluations performed by the international credit rating agency Fitch Ratings attest to Kuwait Turkish Participation Bank's outstanding performance, superior asset quality and sound capital structure.

### Kuwait Turkish Participation Bank, Incorporated

#### Foreign Currency

Long-Term	BB
Short-Term	B
Outlook	Stable

#### Local Currency

Long-Term	BBB-
Short-Term	F3
Outlook	Stable

#### National

Long-Term	AAA (tur)
Outlook	Stable
Individual	D
Support	3

#### Sovereign Risk

Foreign Long-Term	BB-
Local Long-Term	BB
Outlook	Stable

## FIVE-YEAR FINANCIAL HIGHLIGHTS

### FINANCIAL HIGHLIGHTS (,000 YTL)

	<b>*2003</b>	<b>**2004</b>	<b>**2005</b>	<b>***2006</b>	<b>***2007</b>
Profit-share income	192,239	138,645	168,545	299,329	397,212
Profit shares paid on participation accounts					
Fee and commission income (net)	77,287	72,787	97,688	168,284	207,905
Other operating income	9,849	21,305	39,281	21,745	38,495
Other operating costs	22,419	15,810	63,194	28,014	58,531
Provision for tax liability	124,526	93,441	143,710	145,303	192,946
	0	0	0	0	19,264
Profit for the year (net)	22,694	9,532	29,622	35,501	74,123
Total assets	1,226,336	1,541,421	2,339,928	2,936,082	3,868,318
Total shareholders' equity	171,538	183,528	211,884	247,238	388,583
Capital adequacy ratio	%20.99	%16.75	%13.27	%15.01	% 14.72

\* 2003 Financial Highlights prepared in accordance with Tax Procedure Law (VUK) standards.

\*\* 2004 and 2005 Financial Highlights prepared in accordance with the Directive on Accounting Practices (MUY).

\*\*\* 2006 and 2007 Financial Highlights prepared in accordance with the regulations and principles of the Turkish Accounting Standards (TMS).





# INDEPENDENT AUDITORS REPORT

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## **KUWAIT TURKISH PARTICIPATION BANK, INCORPORATED**

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER  
WITH INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2007

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**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007**

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.



March 3, 2008  
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**CONSOLIDATED BALANCE SHEET**

**As at December 31, 2007**

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

	Notes	2007	2006
<b>ASSETS</b>			
Cash and balances with the Central Bank	4	155,508	79,098
Deposits with other banks and financial institutions	4, 28	421,431	306,051
Reserve deposits at the Central Bank	5	191,811	176,820
Financial assets – available-for-sale	6, 28	577	1,012
Financial assets – held to maturity	6, 28	5,852	-
Financial assets held for trading	6, 28	133	-
Due from financing activities, net	7, 28	2,747,645	2,076,968
Minimum finance lease payments receivable, net	8, 28	160,940	163,547
Derivative financial instruments	19, 28	3,978	63
Other assets	9, 18	23,719	15,687
Construction projects, net	10	3,140	4,478
Investment properties, net	11	59,389	35,107
Property and equipment, net	13	69,742	71,970
Intangible assets, net	14	1,591	1,724
Deferred tax assets	17	7,886	18,909
		<b>3,853,342</b>	<b>2,951,434</b>
Non-current assets or a disposal group held for sale	12	6,673	-
<b>Total assets</b>		<b>3,860,015</b>	<b>2,951,434</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to other financial institutions and banks	15	433,318	277,143
Current and profit / loss sharing investors' accounts	16	2,969,670	2,375,761
Other liabilities	18	34,372	25,384
Provisions	18	3,226	2,537
Derivative financial instruments	19	6,647	487
Income taxes payable	17	7,816	-
		<b>3,455,049</b>	<b>2,681,312</b>
Liabilities directly associated with assets classified as held for sale	12	544	-
<b>Total liabilities</b>		<b>3,455,593</b>	<b>2,681,312</b>
Share capital	20	260,000	200,188
Share premium	20	23,250	-
Legal reserves and retained earnings	21	121,172	69,934
<b>Total shareholders' equity</b>		<b>404,422</b>	<b>270,122</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,860,015</b>	<b>2,951,434</b>

The policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.



Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**CONSOLIDATED INCOME STATEMENT**

**For the year ended December 31, 2007**

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

	Notes	2007	2006
<b>Income from financing activities:</b>			
Profit / loss sharing accounts		193,582	166,007
Current accounts and equity		112,074	69,305
Profit on deposits with other banks and financial institutions		27,897	17,303
Profit on finance leases		20,455	16,977
<b>Total income from financing activities</b>		<b>354,008</b>	<b>269,592</b>
Profit shares distributed to participation accounts		(185,865)	(151,083)
Profit shares distributed to other banks and financial institutions		(30,284)	(13,977)
<b>Net financing income</b>		<b>137,859</b>	<b>104,532</b>
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	(34,150)	(20,931)
<b>Net financing income after provision for impairment in due from financing activities and lease receivables</b>		<b>103,709</b>	<b>83,601</b>
Foreign exchange gain / (loss), net		14,114	9,182
<b>Net financing income after net foreign exchange gain / (loss)</b>		<b>117,823</b>	<b>92,783</b>
Fees and commission income	24	109,030	70,043
Income from construction projects, net		473	1,054
Net trading income		7,851	1,991
Other income		13,977	4,138
<b>Total other operating income</b>		<b>131,331</b>	<b>77,226</b>
Fees and commission expense	24	(16,886)	(12,060)
Staff costs	25	(83,848)	(64,272)
Depreciation and amortization expense		(11,923)	(9,945)
Withholdings and other taxes		(4,018)	(3,608)
Rent expense		(10,109)	(8,191)
Other expenses	26	(34,977)	(30,653)
<b>Total other operating expense</b>		<b>(161,761)</b>	<b>(128,729)</b>
<b>Income before taxation</b>		<b>87,393</b>	<b>41,280</b>
Current tax charge	17	(7,816)	-
Deferred tax (charge) / credit	17	(11,023)	286
<b>Net income for the year from continuing operations</b>		<b>68,554</b>	<b>41,566</b>
<b>Net income after tax for the year from a discontinued operation</b>	12	<b>(1,476)</b>	<b>(1,609)</b>
<b>Net income for the year</b>		<b>67,078</b>	<b>39,957</b>
<b>Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full YTL per share)</b>	22	<b>0.276</b>	<b>0.187</b>
<b>Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full YTL per share) from continuing operations</b>	22	<b>0.282</b>	<b>0.197</b>

The policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2007**  
**(Currency – In thousands of New Turkish Lira - YTL)**

	Notes	Share Capital	Adjustment to Share Capital	Share Premium	Legal Reserves	Retained Earnings	Total
<b>Balances at January 1, 2006</b>		<b>200,188</b>	<b>22,703</b>	<b>-</b>	<b>4,585</b>	<b>2,836</b>	<b>230,312</b>
Transfer from retained earnings to legal reserves		-	-	-	1,509	(1,509)	-
Dividends paid		-	-	-	-	(147)	(147)
Transfer of adjustment to share capital to retained earnings		-	(22,703)	-	-	22,703	-
Net income for the year		-	-	-	-	39,957	39,957
<b>Balances at December 31, 2006</b>		<b>200,188</b>	<b>-</b>	<b>-</b>	<b>6,094</b>	<b>63,840</b>	<b>270,122</b>
Share capital increase	20	59,812	-	23,250	-	(13,312)	69,750
Transfer from retained earnings to legal reserves		-	-	-	1,812	(1,812)	-
Dividends paid	21	-	-	-	-	(2,528)	(2,528)
Net income for the year		-	-	-	-	67,078	67,078
<b>Balances at December 31, 2007</b>		<b>260,000</b>	<b>-</b>	<b>23,250</b>	<b>7,906</b>	<b>113,266</b>	<b>404,422</b>

The policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

**CONSOLIDATED CASH FLOW STATEMENT**

**For the year ended December 31, 2007**

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

	Notes	2007	2006
<b>Cash flows from operating activities:</b>			
Income from continuing operations before taxation		87,393	41,280
Income from discontinued operations before taxation		(1,476)	(1,609)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	11, 13, 14	11,923	10,567
Provision for employee termination benefits and personnel bonus accrual	18	12,272	9,607
Provision for impairment in due from financing activities and lease receivables	7,8	34,150	20,931
Provision for / (reversal of) impairment in intangible assets, property and equipment and investment properties		579	(2,584)
Provision for net realizable value and other receivables in construction projects	10	1,090	1,317
Income accrual of funds invested	7	14,462	(25,494)
Expense accrual of participation accounts	16	8,648	(4,719)
Income accrual from deposits at the Central Bank of Turkey		(635)	(766)
Expense accrual of funds borrowed		5,022	3,329
Net change in derivative financial instruments	19	2,245	389
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		(1,279)	(1,028)
Gain on sale of available for sale financial assets	6	(3)	(433)
Fair value movement of held for trading securities	6	27	-
<b>Operating income before changes in operating assets and liabilities</b>		<b>174,418</b>	<b>50,787</b>
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(14,356)	(44,882)
Due from financing activities	7	(718,967)	(566,013)
Minimum finance lease payments receivables		2,285	(2,952)
Other assets and construction projects		(7,272)	2,031
Current accounts and profit/loss sharing investors' accounts	16	585,261	459,869
Other liabilities		(2,012)	5,428
Payment for employee termination benefits		(565)	(1,007)
<b>Net cash provided by / (used in) operating activities</b>		<b>18,792</b>	<b>(96,739)</b>
<b>Cash flows from investing activities:</b>			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(6,284)	(184)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	710	14,049
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(45,799)	(18,010)
Proceeds from sale of property and equipment, intangible assets and investment properties		5,376	5,782
Proceeds from sale of asset and liabilities held for sale		786	-
<b>Net cash (used in) / provided by investing activities</b>		<b>(45,211)</b>	<b>1,637</b>
<b>Cash flows from financing activities:</b>			
Dividends paid	21	(2,528)	(147)
Increase in due to financial institutions and banks		151,153	77,309
Premium on issue of shares	20	23,250	-
Increase in share capital	20	46,500	-
<b>Net cash provided by financing activities</b>		<b>218,375</b>	<b>77,162</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>191,956</b>	<b>(17,940)</b>
Cash and cash equivalents at the beginning of the year	4	385,149	403,089
<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b>577,105</b>	<b>385,149</b>
Profit share received		362,060	244,098
Profit share paid		207,501	160,391

The policies and explanatory notes on pages 6 through 56 form an integral part of the consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2007**

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

**1. CORPORATE INFORMATION**

**General**

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait.

Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on March 3, 2008. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

**Nature of Activities of the Bank and its Subsidiaries**

At December 31, 2007, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

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

The Bank's other subsidiary, Auto Land Otomotiv San. ve Tic. A.Ş. ("Auto Land"), in which the Bank has a 100% shareholding was established in April 6, 2004 in Turkey. Auto Land's registered address is Basın Ekspres Yolu, B Blok, No:5 Halkalı/İstanbul. Auto Land is engaged in purchase, sale and lease transactions in the automotive industry.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Preparation**

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments and financial investments held for trading that have been measured at fair value.

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

**December 31, 2007**

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

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

The Bank and its subsidiaries (collectively – the Group) maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, Turkish Commercial Code and Turkish Tax Legislation. The consolidated financial statements have been prepared from the statutory financial statements of the Bank and its subsidiaries in New Turkish Lira (YTL) with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. Such adjustments mainly comprise effects of consolidation of subsidiaries and impairment of financial and non-financial assets.

**2.2 Changes in Accounting Policies**

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations had no material effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- ⇒ IFRS 7 - Financial Instruments: Disclosures
- ⇒ IAS 1 – Amendment – Capital Disclosures
- ⇒ IFRIC 7 – Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”
- ⇒ IFRIC 8 – Scope of IFRS 2- Share-based payment
- ⇒ IFRIC 9 – Reassessment of Embedded Derivatives
- ⇒ IFRIC 10 – Interim Financial Reporting and Impairment
- ⇒ IFRIC 11 – IFRS 2 - Group and Treasury Share Transactions

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

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

- ***IAS 1 Presentation of Financial Statements Revised*** (effective for financial years beginning on or after January 1, 2009)

IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. One of the main objectives of the changes is to separate owner and non-owner changes in equity. It is expected that the impact of the amended standard on the Group will be presentational.

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

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

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

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



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

**December 31, 2007**

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

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

**- IAS 23, Borrowing Costs** *(effective for financial years beginning on or after January 1, 2009)*

The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group is in the process of assessing the impact of this new standard will have on its financial statements.

**- IFRIC 13, Customer Loyalty Programmes** *(effective for financial years beginning on or after July 1, 2008)*

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

**- IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** *(effective for financial years beginning on or after January 1, 2008)*

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.

**- Amendments to IFRS 2 'Share Based Payment' – Vesting Conditions and Cancellations**  
*(effective for annual periods beginning on or after January 1, 2009)*

The amendment clarifies two issues: The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. The Group expects that this Interpretation will have no impact on its financial statements.

**- Revisions to IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements'**  
*(effective for annual periods beginning on or after July 1, 2009)*

A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued by IASB on January 10, 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

**- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments** *(effective for annual periods beginning on or after 1 January 2009)*

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

The Group does not expect these amendments to impact the financial statements of the Bank.

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

**December 31, 2007**

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

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

**2.3 Reclassifications of Comparative Figures**

The Group has made reclassifications in the consolidated balance sheet as of December 31, 2006 and in the consolidated income statement for the year ended December 31, 2006 to be consistent with the current year presentation. The reclassifications are as follows:

- YTL 3,183 representing construction in progress has been reclassified from investment property to property and equipment.
- YTL 9,003 representing income from reserve deposits has been reclassified from income from profit sharing accounts to profit and deposits with other banks and financial institutions.

**2.4 Summary of Significant Accounting Policies**

**Significant Accounting Judgments and Estimates**

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

The judgments and estimates that may have a significant effect on amounts in the financial statements relate to, impairment losses on due from financing activities and lease receivables and pensions which are discussed in the relevant sections of this note below:

**Employee Benefits:** The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 18.

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

**Functional and Presentation Currency**

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

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of YTL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2007 and 2006 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

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 Group could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

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

**December 31, 2007**

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

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

**Consolidation of Subsidiaries**

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2007 and 2006 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the year ended December 31, 2007 and 2006, respectively. Subsidiaries are all entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

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

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

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

Details of the subsidiaries subject to consolidation are stated below:

Name of subsidiaries	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2007	December 31, 2006
"Körfez"	Turkey	100%	100%
"Auto Land"	Turkey	100%	100%

**Foreign Currency Translation**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the CBT. All differences are taken to the income statement as foreign exchange gain/loss.

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

Dates	YTL / USD (full)	YTL / EUR (full)
December 31, 2005	1.35	1.59
December 31, 2006	1.40	1.85
December 31, 2007	1.16	1.71

**Property and Equipment**

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

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

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

**December 31, 2007**

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

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

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period/year the asset is derecognized.

**Construction Projects**

The Group has classified its time sharing houses as construction projects.

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

**Investment Property**

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

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of 50 years.

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

**Intangible Assets**

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.



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

December 31, 2007

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

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

**Impairment of Non-Financial Assets**

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

**Financial Assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

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

**Available-for-sale Financial Assets**

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

Unrealized gains and losses are recognized directly in equity. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

**Financial Assets at Fair Value through Profit or Loss**

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



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

**December 31, 2007**

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

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

***Held to Maturity Investments***

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

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

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as “due from financing activities” and are carried at amortized cost. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective yield of the instrument.

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

***Derivative Financial Instruments***

The Bank enters into transaction with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 “Financial Instruments: Recognition and Measurement”, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis.

***Offsetting Financial Instruments***

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

***Derecognition of Financial Instruments***

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

**December 31, 2007**

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

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

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

**Cash and Cash Equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

**Impairment of Financial Assets**

**a) Assets carried at amortized cost**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
- (c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - (i) adverse changes in the payment status of borrowers; or
  - (ii) national or local economic conditions that correlate with defaults on the assets of the Bank.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

**December 31, 2007**

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

**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. Impairment losses on equity instruments are not reversed.

**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 of impairment regarding equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

**d) *Renegotiated financing and leasing receivables***

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

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

December 31, 2007

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

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

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

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

**Due to Other Financial Institutions and Banks**

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

**Employee Benefits**

The Group has both defined benefit and defined contribution plans as described below:

**(a) Defined Benefit Plans:**

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

**(b) Defined Contribution Plans:**

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

**Provisions**

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

**Leases**

**The Group as Lessee**

**Operating Leases**

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

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



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

**December 31, 2007**

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

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

**Finance Lease**

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

**The Group as Lessor**

**Finance Lease**

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

**Income and Expense Recognition**

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

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 75% - 90% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

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

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

**Income Tax**

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

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

**Current tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.



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

December 31, 2007

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

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

***Deferred tax***

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

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Fiduciary Assets**

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

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

**December 31, 2007**

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

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

**Related Parties**

Parties are considered related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest that gives it significant influence; or
  - (iii) has joint control;
- (b) the party is an associate;
- (c) the party is a joint venture;
- (d) the party is a member of the key management personnel;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees or of any entity that is a related party.

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

**Subsequent Events**

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

**Segment Information**

The primary segment reporting format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products sold and services provided.

The Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information.

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

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

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

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

Total assets, liabilities, off-balance sheet items and revenues generated by the subsidiaries of the Bank do not satisfy reportable segment conditions and are therefore included in "other" column in segment disclosures.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

3. SEGMENT INFORMATION

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2007 and 2006, respectively.

For the year ended December 31, 2007	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	142,933	182,819	28,256	-	-	354,008
Profit shares distributed	(134,260)	(48,791)	(33,001)	(97)	-	(216,149)
Net fees and commission income	31,131	62,619	(1,746)	140	-	92,144
Other income	6,336	8,345	7,851	1,370	12,513	36,415
<b>Total operating income</b>	<b>46,140</b>	<b>204,992</b>	<b>1,360</b>	<b>1,413</b>	<b>12,513</b>	<b>266,418</b>
Provision for impairment in due from financing activities and lease receivables	(10,812)	(23,338)	-	-	-	(34,150)
<b>Net operating income</b>	<b>35,328</b>	<b>181,654</b>	<b>1,360</b>	<b>1,413</b>	<b>12,513</b>	<b>232,268</b>
Operating expenses, net	(6,058)	-	-	(2,534)	(136,283)	(144,875)
<b>Income before taxation</b>	<b>29,270</b>	<b>181,654</b>	<b>1,360</b>	<b>(1,125)</b>	<b>(123,770)</b>	<b>87,393</b>
Tax charge	-	-	-	-	(18,839)	(18,839)
<b>Net income for the year from continuing operations</b>						<b>68,554</b>
<b>Net income for the year from discontinued operations</b>	-	-	-	(1,476)	-	<b>(1,476)</b>
<b>Net income for the year</b>						<b>67,078</b>

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

(\*) Includes SME loans amounting YTL 220,232.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

3. SEGMENT INFORMATION (continued)

For the year ended December 31, 2006	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	94,040	156,160	17,303	125	1,964	269,592
Profit share distributed (*)	(101,612)	(30,811)	(18,791)	-	(13,846)	(165,060)
Net fees and commission income	19,413	38,446	79	45	-	57,983
Other income	2,287	3,528	1,991	(388)	8,947	16,365
<b>Total operating income</b>	<b>14,128</b>	<b>167,323</b>	<b>582</b>	<b>(218)</b>	<b>(2,935)</b>	<b>178,880</b>
Provision for impairment in due from financing activities and lease receivables (*)	(7,026)	(13,905)	-	-	-	(20,931)
<b>Net operating income</b>	<b>7,102</b>	<b>153,418</b>	<b>582</b>	<b>(218)</b>	<b>(2,935)</b>	<b>157,949</b>
Operating expenses, net	(5,381)	-	-	(3,860)	(107,428)	(116,669)
<b>Profit before tax (*)</b>	<b>1,721</b>	<b>153,418</b>	<b>582</b>	<b>(4,078)</b>	<b>(110,363)</b>	<b>41,280</b>
Tax benefit	-	-	-	286	-	286
<b>Net income for the year from continuing operations</b>						<b>41,566</b>
<b>Net income for the year from discontinued operations</b>	-	-	-	(1,609)	-	<b>(1,609)</b>
<b>Net income for the year</b>						<b>39,957</b>
Assets and Liabilities as of December 31, 2006	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Assets and liabilities						
Due from financing activities and financial lease payments receivable, net	734,253	1,506,262	-	-	-	2,240,515
Financial assets – available for sale	-	-	1,012	-	-	1,012
Other	-	-	560,638	42,211	107,058	709,907
<b>Total assets</b>	<b>734,253</b>	<b>1,506,262</b>	<b>561,650</b>	<b>42,211</b>	<b>107,058</b>	<b>2,951,434</b>
Due to other financial institutions and Banks	-	-	277,143	-	-	277,143
Current and profit loss sharing investors' accounts	1,310,351	988,522	64,874	-	12,014	2,375,761
Other	-	-	487	8,091	19,830	28,408
<b>Total liabilities</b>	<b>1,310,351</b>	<b>988,522</b>	<b>342,504</b>	<b>8,091</b>	<b>31,844</b>	<b>2,681,312</b>
Capital Expenditures	-	-	-	-	18,010	18,010
Depreciation and Amortization	-	-	-	-	10,567	10,567

(\*) The Bank has not reflected profit share distribution between operating segments.

(\*\*) Includes SME loans amounting YTL 112,380.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

4. CASH AND BALANCES WITH BANKS

	2007	2006
Cash on hand	52,942	62,132
Balances with the Central Bank	102,566	16,966
<b>Cash and balances with the Central Bank</b>	<b>155,508</b>	<b>79,098</b>
Balances with foreign banks	178,099	224,606
Balances with domestic banks	241,688	74,404
Current accounts in participation banks	1,644	7,041
<b>Balances with banks and other financial institutions</b>	<b>421,431</b>	<b>306,051</b>
<b>Cash and cash equivalents</b>	<b>576,939</b>	<b>385,149</b>

As of December 31, 2007 and 2006, within “balances with banks and other financial institutions” are made up of demand and time deposits. The time deposits, which have original maturities less than three months, and can be analyzed follows:

	2007				2006			
	Amount		Effective profit rate		Amount		Effective profit rate	
	YTL	Foreign currency (YTL equivalent)	YTL	Foreign currency	YTL	Foreign currency (YTL equivalent)	YTL	Foreign currency
Deposits with other banks and financial institutions	-	204,450	-	4.59%	-	209,782	-	4.95%
<b>Total</b>		<b>204,450</b>			<b>-</b>	<b>209,782</b>	<b>-</b>	<b>-</b>

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31, 2007 and 2006:

	2007	2006
Cash and balances with the Central Bank	155,508	79,098
Balances with Banks and other financial institutions	421,431	306,051
Cash at banks and on hand attributable to discontinued operation	166	-
<b>Total</b>	<b>577,105</b>	<b>385,149</b>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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5. RESERVE DEPOSITS AT THE CENTRAL BANK OF TURKEY

	2007		2006	
	Foreign Currency (full)	YTL	Foreign Currency (full)	YTL
US\$	445,399	519	445,399	629
EUR	110,529,733	189,029	93,830,114	174,393
YTL	-	2,263	-	1,798
		<b>191,811</b>	-	<b>176,820</b>

As of December 31, 2007, the interest rate applied for New Turkish Lira, US\$ and Euro reserve deposits are 11.81%, 1.95% and 1.80% (December 31, 2006 - 13.12%, 2.52% and 1.70%), respectively.

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

6. FINANCIAL ASSETS

Available-for-sale

	2007	2006
<u>At cost</u>		
Participation funds (*)	-	707
Unlisted shares (**)	577	305
<b>Total available-for-sale financial assets</b>	<b>577</b>	<b>1,012</b>

(\*) The Bank disposed of its investment in the profit sharing account with Islamic Development Bank for YTL 710 in 2007 recognizing a gain from the sale of YTL 3.

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

	Nature of business	2007		2006	
		%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	12.43	577	15.54	305
			<b>577</b>		<b>305</b>

IRA has increased its share capital by cash injection of its shareholders twice in 2007. The Group only participated one of this share capital increases with 234,000 USD and the shareholding percentage of the Group has decreased to 12.43%. The Group does not intend to dispose its shares in IRA.

The fair value of the above listed available-for-sale investments at cost can not be reliably estimated. There is no market for these investments.

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**6. FINANCIAL ASSETS (continued)**

**Held to maturity**

Held to maturity assets include a Sukuk investment amounting to YTL 5,852 that is invested by the Bahrain branch of the Bank. Islamic bond products are represented by Sukuks. It has a maturity that is determined in advance and is backed by an asset which makes it possible for the investment to earn a return without payment of interest. Sukuks are structured in such a way that their holders run a credit risk and receive part of the profit and not a fixed interest payment in advance. The maturity of the Sukuk is 2010 with quarterly payments. The rate of the Sukuk is Libor+2%.

**Held for trading**

Financial assets held for trading includes share certificates listed in the Istanbul Stock Exchange (ISE) amounting to YTL 133 (December 31, 2006 - None).

The movement in financial assets may be summarized as follows:

Financial investments	2007			2006		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	1,012	-	-	14,682	-	-
Exchange differences	3	-	-	832	-	-
Additions	272	5,852	160	184	-	-
Disposals (sale and redemption)	(710)	-	-	(14,448)	-	-
Fair value movement	-	-	(27)	-	-	-
Impairment losses	-	-	-	(238)	-	-
<b>Balance at the end of the year</b>	<b>577</b>	<b>5,852</b>	<b>133</b>	<b>1,012</b>	<b>-</b>	<b>-</b>

**7. DUE FROM FINANCING ACTIVITIES, NET**

	2007	2006
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	1,381,741	1,284,146
Funds invested from current accounts and equity	1,285,189	706,358
Income accruals on due from financing activities	41,061	55,523
	<b>2,707,991</b>	<b>2,046,027</b>
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	54,194	65,606
Funds invested from current accounts and equity	67,569	45,985
	<b>121,763</b>	<b>111,591</b>
<b>Total</b>	<b>2,829,754</b>	<b>2,157,618</b>
<b>Impairment allowance</b>		
Funds invested from profit / loss sharing accounts in foreign currency	(33,784)	(35,266)
Funds invested from current accounts and equity	(34,377)	(29,280)
Funds invested from profit / loss sharing accounts – YTL	(13,948)	(16,104)
	<b>(82,109)</b>	<b>(80,650)</b>
<b>Total due from financing activities</b>	<b>2,747,645</b>	<b>2,076,968</b>

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**7. DUE FROM FINANCING ACTIVITIES, NET (continued)**

As of December 31, 2007 the Bank took possession of collateral (lands and buildings) from customers amounting to YTL 3,050 (December 31, 2006 - YTL 1,031), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

The movement in impairment allowance is as follows:

	2007	2006
Balance at the beginning of the year	80,650	47,547
Provisions - participation accounts	5,479	19,148
Provisions - bank	33,828	19,705
Recoveries of amounts previously provided for	(7,254)	(3,287)
Reserves written off in current year (*)	(30,594)	(2,463)
<b>Balance at the end of the year</b>	<b>82,109</b>	<b>80,650</b>

(\*) In 2007, non-performing loans for which a 100% provision was made in prior periods amounting in total to YTL 30,594 were written off (2006 – YTL 2,463).

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable (Note 8) is YTL 5,248 (December 31, 2006 – YTL 1,949) and this amount is included in other income.

The impairment allowance of YTL 82,109 (December 31, 2006 - 80,650) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

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

	2007	2006
Balance at beginning of year	9,001	7,985
Provisions - bank	2,957	501
Provisions - participation accounts	770	515
Recoveries and write-offs	-	-
<b>Allowance at the end of the year</b>	<b>12,728</b>	<b>9,001</b>

**8. MINIMUM FINANCE LEASE PAYMENTS RECEIVABLE, NET**

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

	2007	2006
Gross investment in finance leases	172,934	183,721
Unearned finance income	(22,593)	(27,460)
Total impaired receivables	14,173	14,466
Impairment allowance	(3,574)	(7,180)
<b>Minimum lease payments receivable, net</b>	<b>160,940</b>	<b>163,547</b>

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

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8. MINIMUM FINANCE LEASE PAYMENTS RECEIVABLE, NET (continued)

	2007	2006
Balance at 1 January	7,180	11,011
Provisions - participation accounts	626	3,126
Provisions - Bank	322	1,226
Recoveries of amounts previously provided for	(833)	(1,879)
Impairment allowance written off in current year	(3,721)	(6,304)
<b>Balance at the end of the year</b>	<b>3,574</b>	<b>7,180</b>

Gross investment in finance leases as to their maturity:

	2007	2006
Not later than 1 year (*)	109,440	109,635
Later than 1 year and not later than 5 years	77,434	86,766
Later than 5 years	233	1,786
<b>Minimum lease payments receivable, gross</b>	<b>187,107</b>	<b>198,187</b>
<b>Less : Unearned finance income</b>	<b>(22,593)</b>	<b>(27,460)</b>
Net investment in finance leases	164,514	170,727
Less : Allowance for impairment	(3,574)	(7,180)
<b>Minimum lease payments receivable, net</b>	<b>160,940</b>	<b>163,547</b>

(\*) includes total impaired receivables amounting to YTL 14,173 (December 31, 2006 – 14,466 YTL).

As of December 31, 2007, YTL 141,701 (December 31, 2006 - YTL 163,269) gross lease receivables are denominated in foreign currency (US\$ and EUR).

Net investment in finance leases as to their maturity:

	2007	2006
Not later than 1 year (*)	95,439	94,445
Later than 1 year and not later than 5 years	68,924	74,744
Later than 5 years	151	1,538
<b>Net investment in finance leases</b>	<b>164,514</b>	<b>170,727</b>

(\*) includes total impaired receivables amounting to YTL 14,173 (December 31, 2006 – 14,466 YTL).

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

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**9. OTHER ASSETS**

Other assets comprise the following:

	2007	2006
Transitory accounts (*)	8,197	6,490
Precious metals	10,088	-
Value added tax (VAT) receivable	1,864	1,815
Receivable from assets sold	1,198	1,248
Inventory (mainly from Auto Land)	-	929
Other	2,372	5,205
	<b>23,719</b>	<b>15,687</b>

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

**10. CONSTRUCTION PROJECTS, NET**

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

	2007	2006
Completed construction projects (inventories)	13,201	13,205
Receivables from construction projects	176	420
	<b>13,377</b>	<b>13,625</b>
(Less) Reserve for net realizable value (Note 26)	(10,061)	(8,735)
(Less) Reserve for doubtful receivables	(176)	(412)
<b>Total construction projects, net</b>	<b>3,140</b>	<b>4,478</b>



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**11. INVESTMENT PROPERTIES, NET**

	<b>2007</b>	<b>2006</b>
Balance at the beginning of the year	<b>35,107</b>	36,980
Additions	<b>18,377</b>	4,121
Disposal (*)	<b>(3,351)</b>	(4,434)
Depreciation charge	<b>(866)</b>	(1,169)
Impairment allowance	-	(200)
Reversal of impairment due to the disposal	<b>84</b>	2,687
Transfer to asset held for sale (Note 12)	<b>(3,236)</b>	-
Transfer from fixed assets (Note 13)	<b>14,205</b>	-
Transfer to fixed assets (Note 13)	<b>(931)</b>	(2,878)
<b>Balance at the end of the year</b>	<b>59,389</b>	35,107
Cost	<b>61,489</b>	36,476
Accumulated depreciation	<b>(1,984)</b>	(1,169)
Accumulated impairment	<b>(116)</b>	(200)
<b>Net carrying amount</b>	<b>59,389</b>	35,107

(\*) During the years ended December 31, 2007 and 2006, the Bank sold investment properties for which there was impairment allowance of YTL 84 and YTL 2,687 respectively.

Out of YTL 59,389, an investment property (a building) amounting to YTL 23,288 (December 31, 2006 – YTL 23,784), 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 Group obtained YTL 2,267 rent income from this property during the year ended December 31, 2007 (December 31, 2006 – YTL 2,723) and directly transferred to Kuwait Finance House.

Fair value of the investment properties is YTL 72,837 (December 31, 2006 - YTL 40,750) which is determined based on the valuations performed by independent qualified valuers.

**12. NON-CURRENT ASSETS OR A DISPOSAL GROUP HELD FOR SALE**

At December 31, 2007, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this and prior periods amounting to YTL 3,236, which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank.

Movement of non-current assets held for sale is as follows:

	<b>2007</b>	<b>2006</b>
Balance at the beginning of the year	-	-
Additions	-	-
Transfer from investment property (Note 11)	<b>3,236</b>	-
Disposal	<b>(728)</b>	-
Depreciation charge	-	-
<b>Balance at the end of the year</b>	<b>2,508</b>	-

Gain on sale of non-current assets held for sale amounting to YTL 511 is included in other income in the income statement.

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12. NON-CURRENT ASSETS OR A DISPOSAL GROUP HELD FOR SALE (continued)

The disposal of Auto Land has been finalized on February 28, 2008 and the Group signed a sales contract with two companies (namely Baytik Capital Holding B.S.C and A'ayan Leasing and Investment Company) with respect to disposal of Auto Land. As at December 31, 2007, Auto Land was classified as a disposal group held for sale.

The results of Auto Land for the years are presented below:

	2007	2006
Foreign exchange gain/(loss), net	300	(419)
Other income	679	1,630
Staff costs	(746)	(1,235)
Depreciation and amortization expense	(864)	(622)
Other expense	(404)	(426)
Effects of consolidation	(441)	(537)
<b>Net loss for the year</b>	<b>(1,476)</b>	<b>(1,609)</b>

The major classes of assets and liabilities of Auto Land classified as held for sale as at December 31, 2007 are as follows:

	2007	2006 (*)
Cash and due from banks	208	-
Property and equipment, net (Note 13)	3,056	-
Other assets	955	-
<b>Assets</b>	<b>4,219</b>	<b>-</b>
Effects of consolidation (**)	(54)	-
<b>Consolidated assets of Auto Land</b>	<b>4,165</b>	
Due to other financial institutions and banks	2,384	-
Other liabilities	761	-
<b>Liabilities</b>	<b>3,145</b>	<b>-</b>
Effects of consolidation	(2,601)	-
<b>Consolidated liabilities of Auto Land</b>	<b>544</b>	
<b>Net assets directly associated with disposal group</b>	<b>3,621</b>	<b>-</b>

(\*) Auto Land was not classified as held for sale in 2006, therefore there are no comparative balances in 2006.

(\*\*) Includes elimination of the cash in banks balance of Auto Land deposited to the Bank amounting to YTL 42.

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12. NON-CURRENT ASSETS OR A DISPOSAL GROUP HELD FOR SALE (continued)

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

	2007	2006
Operating	(608)	(1,318)
Net cash outflow	(608)	(1,318)

The table below summarizes the maturity profile of the discontinued operation's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Due to other financial institutions and banks	-	-	-	2,601	-	2,601

13. PROPERTY AND EQUIPMENT, NET

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2006, net of accumulated depreciation and impairment	40,861	11,454	10,195	2,068	306	64,884
Additions	456	6,739	4,410	1,164	2,877	15,646
Disposals	(80)	(11)	-	(229)	-	(320)
Depreciation charge for the year	(708)	(4,102)	(2,888)	(639)	-	(8,337)
Reversal of impairment	97	-	-	-	-	97
<b>At December 31, 2006, net of accumulated depreciation and impairment</b>	<b>40,626</b>	<b>14,080</b>	<b>11,717</b>	<b>2,364</b>	<b>3,183</b>	<b>71,970</b>
Additions	639	8,115	3,958	1,685	11,078	25,475
Disposals	(4)	(265)	(225)	(252)	-	(746)
Depreciation charge for the year	(871)	(4,850)	(3,671)	(572)	-	(9,964)
Impairment charge	(663)	-	-	-	-	(663)
Disposal of discontinued operations (Note 12)	-	(235)	-	(2,821)	-	(3,056)
Transfer from/(to) investment property (Note 11)	931	-	-	-	(14,205)	(13,274)
<b>At December 31, 2007, net of accumulated depreciation and impairment</b>	<b>40,658</b>	<b>16,845</b>	<b>11,779</b>	<b>404</b>	<b>56</b>	<b>69,742</b>

(\*) YTL 7,929 (net) and YTL 3,743 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2007 and 2006, respectively. There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2006						
Cost	44,837	38,760	18,922	4,386	3,183	110,088
Accumulated depreciation	(4,211)	(24,680)	(7,205)	(2,022)	-	(38,118)
Accumulated impairment	-	-	-	-	-	-
<b>Net carrying amount</b>	<b>40,626</b>	<b>14,080</b>	<b>11,717</b>	<b>2,364</b>	<b>3,183</b>	<b>71,970</b>
At December 31, 2007						
Cost	46,397	46,224	22,521	2,828	56	118,026
Accumulated depreciation	(5,076)	(29,379)	(10,742)	(2,424)	-	(47,621)
Accumulated impairment	(663)	-	-	-	-	(663)
<b>Net carrying amount</b>	<b>40,658</b>	<b>16,845</b>	<b>11,779</b>	<b>404</b>	<b>56</b>	<b>69,742</b>

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**13. PROPERTY AND EQUIPMENT, NET (continued)**

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2007 and 2006 is as follows:

	2007	2006
Motor vehicles	148	217
Leasehold improvements	1,346	1,346
Furniture and office equipment	6,539	3,708
	<b>8,033</b>	<b>5,271</b>

**14. INTANGIBLE ASSETS, NET**

	Software
At January 1, 2006	1,970
Additions	815
Disposals	-
Amortization charge for the year	(1,061)
<b>At December 31, 2006, net of accumulated amortization</b>	<b>1,724</b>
Additions	1,016
Disposals	(56)
Amortization charge for the year	(1,093)
<b>At December 31, 2007, net of accumulated amortization</b>	<b>1,591</b>
At December 31, 2006	
Cost (gross carrying amount)	5,038
Accumulated amortization	(3,314)
<b>Net carrying amount</b>	<b>1,724</b>
At December 31, 2007	
Cost (gross carrying amount)	5,998
Accumulated amortization	(4,407)
<b>Net carrying amount</b>	<b>1,591</b>

The cost of intangible assets, which are fully amortized but still in use as of December 31, 2007 and 2006 is YTL 2,263 and YTL 1,296, respectively.

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15. DUE TO OTHER FINANCIAL INSTITUTIONS AND BANKS

Original Foreign Currency	Amount in YTL	
	2007	2006
US\$	420,245	218,660
Euro	13,073	58,483
<b>Total</b>	<b>433,318</b>	<b>277,143</b>

As of December 31, 2007 short-term borrowings (less than 12 months) amounts to YTL 172,862 (As of December 31, 2006, all borrowings of the Group comprise short-term borrowings).

16. CURRENT AND PROFIT / LOSS SHARING INVESTORS' ACCOUNTS

	2007	2006
Current accounts:		
New Turkish lira	346,929	207,401
Foreign currency	321,761	356,054
	<b>668,690</b>	<b>563,455</b>
Profit/loss sharing investors' accounts:		
New Turkish lira	1,000,400	694,309
Foreign currency	1,265,568	1,094,231
	<b>2,265,968</b>	<b>1,788,540</b>
Blocked accounts:		
New Turkish lira	20,044	18,203
Foreign currency	1,651	894
	<b>21,695</b>	<b>19,097</b>
<b>Total current accounts and profit/loss investors' accounts</b>	<b>2,956,353</b>	<b>2,371,092</b>
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>13,317</b>	<b>4,669</b>
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>2,969,670</b>	<b>2,375,761</b>

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



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

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

	2007 (in YTL)			2006 (in YTL)		
	YTL	Foreign Currency	Total	YTL	Foreign Currency	Total
Up to 1 month	990,629	930,156	1,920,785	776,047	1,140,235	1,916,282
From 1 month to 3 months	263,386	419,976	683,362	89,459	173,529	262,988
From 3 months to 1 year	39,834	151,762	191,596	31,257	82,206	113,463
Over one year	73,524	87,086	160,610	23,150	55,209	78,359
	<b>1,367,373</b>	<b>1,588,980</b>	<b>2,956,353</b>	<b>919,913</b>	<b>1,451,179</b>	<b>2,371,092</b>

At December 31, 2007 and 2006, foreign currency current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2007		2006	
	Foreign currency (full)	YTL Equivalent	Foreign currency (full)	YTL Equivalent

Current and blocked accounts:

US\$	180,752,078	210,522	171,801,273	242,772
Euro	57,115,836	97,680	58,743,913	109,181
Other		15,210		4,995
		<b>323,412</b>		<b>356,948</b>

Profit/loss sharing investors' accounts:

US\$	589,510,858	686,604	472,895,493	668,249
Euro	338,536,012	578,964	229,195,397	425,982
Other		-		-
		<b>1,265,568</b>		<b>1,094,231</b>
		<b>1,588,980</b>		<b>1,451,179</b>

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

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

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**17. INCOME TAXES**

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

In Turkey, the corporation tax rate for the fiscal year ending December 31, 2007 and 2006 is 20%, unless qualifying capital investments are made in which case the tax rate is 30% for 2007 and 2006. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

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

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2003 - 2007), as the amount, if any, cannot be estimated with any degree of certainty.

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

	2007	2006
Current tax expense	(7,816)	-
Deferred tax credit/(charge)	(11,023)	286
<b>Total income tax (charge)/credit</b>	<b>(18,839)</b>	<b>286</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

17. INCOME TAXES (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2007 and 2006 is as follows:

	2007	2006
Profit before income tax from continuing operations	87,393	41,280
Loss before tax from a discontinued operation	(1,476)	(1,609)
Net profit before income tax	85,917	39,671
At Turkish statutory income tax rate of 30%	25,775	11,901
Effect of change in tax rate	(1,348)	(1,781)
Effect of income not subject to tax	(5,282)	(6,374)
Effect of expenditure not allowable for income tax purposes	6,422	1,103
Effect of restatement pursuant to IAS 29 and others	(3,063)	(2,686)
Effect of investment incentive	(3,665)	(2,449)
Income tax expense/(benefit)	18,839	(286)

Deferred income tax as of December 31, 2007 and 2006 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2007	2006
Provision for impairment in due from financing activities	1,463	-
Accounting for finance leases	502	4,392
Derivative accrual	534	127
Reserve for employee termination benefits	638	507
Effect of other temporary differences	412	485
Investment incentive	-	17,871
Provision for impairment in subsidiaries	3,028	-
Deferred income	1,425	418
Bonus accrual of personnel	2,204	2,387
<b>Deferred tax assets</b>	<b>10,206</b>	<b>26,187</b>
Restatement of property and equipment, intangible assets and other non-monetary items	2,280	1,084
Provision for impairment in due from financing activities	-	2,206
Effect of other temporary differences	40	953
<b>Deferred tax liabilities</b>	<b>2,320</b>	<b>4,243</b>
<b>Deferred tax asset – net</b>	<b>7,886</b>	<b>21,944</b>
<b>Deferred tax asset not recognized (*)</b>	<b>-</b>	<b>(3,035)</b>
<b>Deferred tax asset - net</b>	<b>7,886</b>	<b>18,909</b>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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17. INCOME TAXES (continued)

Movement of net deferred tax asset is:

	2007	2006
Balance at the beginning of the year	18,909	18,623
Deferred tax (charge)/credit recognized in income statement	(11,023)	286
<b>Balance at the end of the year</b>	<b>7,886</b>	<b>18,909</b>

18. OTHER LIABILITIES AND PROVISIONS

	2007	2006
Personnel bonus accrual	11,018	7,956
Withholding tax and other tax payables	7,479	6,451
Deferred revenue	7,960	4,338
Security premium for participation funds	1,626	1,380
Payables to exporters and suppliers	1,219	1,310
Leasing payable	1,997	930
Deductions on resource usage fund	616	640
Other	2,457	2,379
<b>Total liabilities</b>	<b>34,372</b>	<b>25,384</b>
<b>Provisions</b>		
Employee termination benefits	3,226	2,537
<b>Total provisions</b>	<b>3,226</b>	<b>2,537</b>
<b>Total</b>	<b>37,598</b>	<b>27,921</b>

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

	2007	2006
Balance at January 1	2,537	1,893
Utilized/paid	(565)	(1,007)
Arising during the year	1,235	2,008
Actuarial gain/(loss)	19	(357)
<b>Balance at the end of the year</b>	<b>3,226</b>	<b>2,537</b>

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

**December 31, 2007**

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

**18. OTHER LIABILITIES AND PROVISIONS (continued)**

***Reserve For Employee Termination Benefits***

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 2.030 (full) and YTL 1.857 (full) at December 31, 2007 and 2006, 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, 2007 and 2006, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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

	2007	2006
Discount rate (%)	11	11
Expected salary / ceiling increase rate (%)	5	5

**19. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

The fair values of forward transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements with discounted value of related transaction's forward exchange rates to financial statements date.

December 31, 2007								
	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	3,978	-	497,278	329,842	164,101	3,335	-	-
Currency swap sale	-	6,647	497,876	328,783	166,497	2,596	-	-
	3,978	6,647	995,154	658,625	330,598	5,931	-	-
December 31, 2006								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	63	-	446,676	446,676	-	-	-	-
Currency swap sale	-	487	447,206	447,206	-	-	-	-
	63	487	893,882	893,882	-	-	-	-



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

20. SHARE CAPITAL

	2007	2006
<b>Number of ordinary shares</b> , 1 YTL, par value. Authorized, issued and outstanding.	<b>260.00 million</b>	200.19 million

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

	2007		2006	
	Number	YTL	Number	YTL
At January 1	200,188,000	200,188	2,001,880,000	200,188
Shares issued in				
- bonus shares from retained earnings	13,312,000	13,312	-	-
- cash	46,500,000	46,500	-	-
- effect of change of par value	-	-	(1,801,692,000)	-
At year end	260,000,000	260,000	200,188,000	200,188

In the Ordinary General Meeting dated April 26, 2006 it was decided that the par value of the ordinary shares be increased to YTL 1 (full) from YTL 0.1 (full).

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

As of December 31, 2007 and 2006, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2007		2006	
	Amount	%	Amount	%
Kuwait Finance House	161,810	62.2	124,586	62.2
Directorate of Vakıf Foundations, Turkey	48,670	18.7	37,473	18.7
The Public Institution for Social Security, Kuwait	23,400	9.0	18,017	9.0
Islamic Development Bank	23,400	9.0	18,017	9.0
Other	2,720	1.1	2,095	1.1
Total share capital	260,000		200,188	

The Bank increased its share capital on May 16, 2007. The share capital increase was funded from the retained earnings amounting to YTL 13,312 and by the cash payment of shareholders amounting to YTL 69,750 for 46,500,000 shares. As the shareholders paid YTL 1.5 per share instead of 1 YTL per share, YTL 23,250 has been recorded as share issue premium in the financial statements.

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

Legal Reserves

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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21. LEGAL RESERVES, RETAINED EARNINGS, DIVIDENDS PAID AND PROPOSED (continued)

Dividends Paid and Proposed

During the current year, the Bank has paid a dividend of YTL 2,528 (2006-YTL 147).

	2007	2006
<b>Ordinary shares</b>		
Amount	2,528	147
YTL (full) per share	0.012	0.001

22. EARNINGS PER SHARE

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

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

There is no dilution of shares as of December 31, 2007 and 2006.

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

	2007	2006
Net profit attributable to continuing operations of the Bank for basic earnings per share	68,554	41,566
Net loss attributable to discontinued operations for basic earnings per share	(1,476)	(1,609)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	67,078	39,957
Weighted average number of ordinary shares for basic earnings per share (thousands)	242,754	213,500
Basic earnings per share (expressed in full YTL per share)	0.276	0.187

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December 31, 2007

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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. The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2006 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2006 -18.7%), 9.0% (December 31, 2006 - 9.0%) and 9.0% (December 31, 2006 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders and parties associated with them are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2007 and 2006 and transactions have been entered into with related parties during the years ended:

## i) Due from financial institutions:

		2007		2006	
		Foreign Currency (full)	YTL equivalent	Foreign currency (full)	YTL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	748	82	842	5
	US\$	579,360	653	1,557,757	2,201
	BHD	44,411	137	14,999	56
			872		2,262

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

		2007		2006	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Islamic Development Bank participation fund (1)	US\$	-	-	500,000	707
		-	-	-	707

## iii) Due to other financial institutions:

		2007		2006	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House, Bahrain (1)	US\$	41,204,913	45,283	15,940,830	22,526
Kuwait Finance House (*)	US\$	13,452,282	14,854	14,164,603	20,016
Kuwait Finance House, Bahrain	EUR	3,119,549	5,357	-	-
Other	US\$	-	-	2,102,500	2,991
			65,494		45,533

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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23. RELATED PARTY DISCLOSURES (continued)

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

		2007		2006	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	EUR	-	-	8,037,489	14,939
Kuwait Finance House (1)	US\$	1,041,47	1,215	155,454	220
Kuwait Finance House (1)	YTL	-	128	-	133
Kuwait Finance House (1)	BHD	-	-	-	-
Islamic Development Bank (1)	US\$	21,4	26	11,910	17
Islamic Development Bank (1)	YTL	-	-	-	144
Directorate of Vakıf Foundations, Turkey (1)	YTL	-	2	-	2,489
			1,371		17,942

v) Profit shares distributed:

		2007		2006	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US\$	28,	33	117,947	167
Kuwait Finance House (1)	EUR	76,	131	176,197	327
Directorate of Vakıf Foundations, Turkey (1)	YTL	-	205	-	303
Other	US\$	-	-	364,031	518
			369		1,315

vi) Non cash credits issued:

		2007		2006	
		Foreign Currency (full)	YTL Equivalent	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US\$	1,145,3	1,334	5,212,120	7,365
			1,334		7,365

(1) Shareholders.

As of December 31, 2007 no provisions have been recognized in respect of loans given to related parties (December 31, 2006 - nil).

Loans amounting to YTL 74 have been issued to directors during the year ended December 31, 2007 (December 31, 2006 – YTL 95).

Directors' Remuneration

The executive members of the Board of Directors and key management received remuneration totaling YTL 4,205 during the year ended December 31, 2007 (December 31, 2006 – YTL 3,607). As of December 31, 2007 and 2006 termination benefits of the key management personnel (included in total remuneration package of YTL 4,205) is YTL 263 and YTL 495, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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23. RELATED PARTY DISCLOSURES (continued)

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman
Abdullah TIVNIKLİ	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. and Audit Committee Member
Kenan KARADENİZ	B.O.D. Member
Shaeen H.A. KH: SH. ALGHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz KH E AL SALEH	B.O.D. Member

Key management includes 9 other officers together with the above B.O.D. members.

24. FEES AND COMMISSION INCOME AND EXPENSE

	2007	2006
<b>Fees and commission income</b>		
Service commissions	45,205	29,406
Credit card fees and commissions	17,323	13,044
Commission income from commitments	20,472	9,637
Communication expense charges	10,585	6,838
POS commission income	6,150	4,048
Import letter of credit commissions	3,583	2,838
Income from agency activities	2,106	925
Commissions from checks and notes	2,371	1,525
Other	1,235	1,782
<b>Total</b>	<b>109,030</b>	<b>70,043</b>
	2007	2006
<b>Fees and commission expense</b>		
Credit card machine and fees paid for credit card	12,824	9,824
Brokerage fees on borrowings	1,431	315
ATM charges	612	812
Other	2,019	1,109
<b>Total</b>	<b>16,886</b>	<b>12,060</b>



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25. SALARIES AND EMPLOYEE BENEFITS

	2007	2006
<b>Staff costs</b>		
Wages and salaries	49,179	37,567
Bonus	11,018	7,956
Social security premiums	9,102	7,180
Other fringe benefits	7,589	5,455
Health expenses	3,696	2,720
Provision for employee termination benefits	689	644
Other	2,575	2,750
<b>Total</b>	<b>83,848</b>	<b>64,272</b>

26. OTHER EXPENSES

	2007	2006
Impairment on available-for-sale securities	-	238
Impairment on investment property	-	200
Impairment on completed projects (Note 10)	1,326	1,235
Impairment on property and equipment (Note 13)	663	-
<b>Impairment charges</b>	<b>1,989</b>	<b>1,673</b>
Insurance fund premium expense	6,058	5,381
Advertising expenses	6,192	3,466
Professional fees	3,423	3,840
Communication	4,021	3,738
Travel and representation expenses	2,419	2,352
Repair and maintenance expenses	2,663	2,150
Cleaning expense	1,904	1,423
Energy expenses	1,669	1,418
Stationery and publishing expenses	929	840
Subscription expenses	835	760
Computer usage expenses	813	268
Insurance expense	476	421
Other	1,586	2,923
<b>Other expenses</b>	<b>32,988</b>	<b>28,980</b>
<b>Total</b>	<b>34,977</b>	<b>30,653</b>

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

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**27. COMMITMENTS AND CONTINGENCIES**

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

The following is a brief summary of significant contingencies and commitments as of December 31, 2007 and 2006:

	2007	2006
Letters of guarantee issued by the Bank	1,451,541	774,846
Letters of credit	305,154	260,379
Commitments	346,571	273,442
Acceptance credits	9,283	13,668
Other guarantees	3,805	4
<b>Total</b>	<b>2,116,354</b>	<b>1,322,339</b>

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

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

The Bank has YTL 17,886, USD 8,638,216 (full), Euro 1,775,624 (full) total YTL 30,984, converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2007. The allocation of these obligations within lease periods as of December 31, 2007 and 2006 is as follows:

	2007	2006
Within one year	9,761	8,274
After one year but not more than five years	21,172	17,854
More than five years	51	39
<b>Total</b>	<b>30,984</b>	<b>26,167</b>

**Fiduciary Activities**

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of YTL 7,132 and YTL 4,057 as of December 31, 2007 and 2006 respectively. As of December 31, 2007, the amounts of the checks and notes are YTL 680,124 (December 31, 2006 – YTL 626,658) and YTL 137,567 (December 31, 2006 – YTL 166,889) respectively.

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

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**28. FINANCIAL RISK MANAGEMENT**

**Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

**Organization of the Risk Management Function**

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

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

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee. Audit Committee is responsible for identifying, measuring, monitoring and reporting Market, Credit, Liquidity and Operational Risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

**Internal Systems and Risk Management Policies**

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and the Risk Management Department.

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

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**28. FINANCIAL RISK MANAGEMENT (continued)**

**Board of Directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

**Audit Committee**

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

**Risk Management and Treasury Middle Office Department**

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks.

**Board of Inspectors and Internal Audit**

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

**Credit Risk**

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

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

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**28. FINANCIAL RISK MANAGEMENT (continued)**

**Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals.

<b>Gross maximum exposure</b>	<b>2007</b>	<b>2006</b>
Cash and balances with central bank (excluding cash on hand)	294,377	193,786
Deposit with banks and financial institutions	421,431	306,051
Due from financing activities	2,747,645	2,076,968
Minimum financial lease payments receivable	160,940	163,547
Financial assets-available for sale	577	1,012
Financial assets-held to maturity	5,852	-
Financial assets-held for trading	133	-
Other assets	23,719	15,687
Derivative financial instruments	3,978	63
<b>Total</b>	<b>3,658,652</b>	<b>2,757,114</b>
Contingent liabilities	1,756,695	1,035,825
Other guarantees	13,088	13,672
Commitments	346,571	273,442
<b>Total</b>	<b>2,116,354</b>	<b>1,322,939</b>
<b>Total credit risk exposure</b>	<b>5,775,006</b>	<b>4,080,053</b>

**Risk concentrations of the maximum exposure to credit risk**

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2007 was YTL 61,797 (December 31, 2006 - YTL 118,509) and non cash credit exposure as of December 31, 2007 was YTL 62,164 (December 31, 2006 - YTL 28,670) before taking account of collateral or other credit enhancements with full protection of immovable collaterals for cash loan and promissory notes for non cash loans.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

28. FINANCIAL RISK MANAGEMENT (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2007	2006
	Gross exposure	Gross exposure
Construction and materials	1,172,961	604,159
Financial services	792,881	541,110
Textile and leather	623,352	435,282
Materials	500,251	234,894
General retailers	413,178	342,731
Manufacturing	282,777	143,910
Electricity	217,898	150,001
Health care and Social Services	178,326	116,270
Forestry	109,670	83,413
Food and beverages	87,117	83,702
Consumers	51,594	76,453
Automotive	48,630	41,705
IT	42,730	37,555
Real estate	26,726	13,981
Paper	24,863	47,278
Telecommunications	7,311	4,111
Other	1,194,741	1,123,498
<b>Total</b>	<b>5,775,006</b>	<b>4,080,053</b>

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

28. FINANCIAL RISK MANAGEMENT (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for due from banks, central bank and reserve deposit balances, financing and leasing receivables, letters of credit, letters of guarantee and other guarantees, based on the Group's credit rating system. The Group classifies the Central Bank of Turkey as high grade. Banks and financial institutions located in Turkey, European Union, United States of America and other OECD countries are graded as standard. Banks, which are located in other countries, are graded as sub-standard by the Bank. Customers of financing and leasing receivable, letters of credit, letters of guarantee and other guarantees are graded in accordance with their transaction volume, payment performance and income generation of the Group from the customer.

	High Grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
<b>2007</b>						
Due from banks, central bank and reserve deposits (excluding cash on hand)	294,377	283,842	137,589	-	-	715,808
Financing and leasing receivables	-	242,866	63,051	231,524	2,371,144	2,908,585
Corporate lending	-	242,866	63,051	98,579	1,355,191	1,759,687
Small business lending	-	-	-	25,043	772,466	797,509
Consumer lending	-	-	-	99,463	130,145	229,608
Credit cards	-	-	-	8,439	113,342	121,781
Contingent liabilities and other guarantees	-	216,210	161,887	-	1,391,686	1,769,783
Commitments	-	10,270	-	-	336,301	346,571
<b>Total</b>	<b>294,377</b>	<b>753,188</b>	<b>362,527</b>	<b>231,524</b>	<b>4,099,131</b>	<b>5,740,747</b>

	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
<b>2006</b>						
Due from banks, central bank and reserve deposits (excluding cash on hand)	193,785	185,183	120,869	-	-	499,837
Financing and leasing receivables	-	48,279	126,346	254,913	1,810,977	2,240,515
Corporate lending	-	48,279	126,346	114,751	939,022	1,228,398
Small business lending	-	-	-	24,952	698,397	723,349
Consumer lending	-	-	-	93,949	103,726	197,675
Credit cards	-	-	-	21,261	69,832	91,093
Contingent liabilities and other guarantees	-	221,880	249,997	-	577,620	1,049,497
Commitments	-	-	-	-	273,442	273,442
<b>Total</b>	<b>193,785</b>	<b>455,342</b>	<b>497,212</b>	<b>254,913</b>	<b>2,662,039</b>	<b>4,063,291</b>

(\*) The Group's rating approach is applicable for financial assets with outstanding risk above YTL 3,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

28. FINANCIAL RISK MANAGEMENT (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

2007	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	55,404	8,929	5,439	-	69,772
Consumer lending	62,382	23,525	5,201	-	91,108
Small business lending	10,746	3,337	1,302	-	15,385
Credit cards	3,694	887	425	-	5,006
<b>Total</b>	<b>132,226</b>	<b>36,678</b>	<b>12,367</b>	<b>-</b>	<b>181,271</b>

2006	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	40,666	62,559	2,237	-	105,462
Consumer lending	76,360	10,050	4,781	-	91,191
Small business lending	1,549	1,633	96	-	3,278
Credit cards	12,780	2,783	1,191	-	16,754
<b>Total</b>	<b>131,355</b>	<b>77,025</b>	<b>8,305</b>	<b>-</b>	<b>216,685</b>

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2007 and 2006 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2007	2006
Due from financing activities:		
Corporate lending	3,140	4,004
Small business lending	-	-
<b>Total renegotiated financial assets</b>	<b>3,140</b>	<b>4,004</b>

Liquidity Risk

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

28. FINANCIAL RISK MANAGEMENT (continued)

Analysis of financial liabilities by remaining contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>As at December 31, 2007</b>						
Due to other financial institutions and banks	-	40,647	148,928	259,702	-	449,277
Derivative financial instruments	-	495,280	2,596	-	-	497,876
Current accounts	690,385	-	-	-	-	690,385
Profit and loss sharing accounts	-	2,131,440	166,676	532	-	2,298,648
Other financial liabilities	-	895	1,181	6	-	2,082
<b>Total undiscounted financial liabilities</b>	<b>690,385</b>	<b>2,668,262</b>	<b>319,381</b>	<b>260,240</b>	<b>-</b>	<b>3,938,268</b>
<b>As at December 31, 2006</b>						
Due to other financial institutions and banks	-	79,858	185,025	20,016	-	284,899
Derivative financial instruments	-	447,206	-	-	-	447,206
Current accounts	582,552	-	-	-	-	582,552
Profit and loss sharing accounts	-	1,665,943	142,772	1,645	-	1,810,360
Other financial liabilities	-	624	382	38	-	1,044
<b>Total undiscounted financial liabilities</b>	<b>582,552</b>	<b>2,193,631</b>	<b>328,179</b>	<b>21,699</b>	<b>-</b>	<b>3,126,061</b>

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>December 31, 2007</b>						
Contingent liabilities and other guarantees	947,298	137,246	211,056	173,537	300,646	1,769,783
Commitments	346,571	-	-	-	-	346,571
<b>Total</b>	<b>1,293,869</b>	<b>137,246</b>	<b>211,056</b>	<b>173,537</b>	<b>300,646</b>	<b>2,116,354</b>
<b>December 31, 2006</b>						
Contingent liabilities and other guarantees	565,773	117,233	144,651	88,316	133,524	1,049,497
Commitments	273,442	-	-	-	-	273,442
<b>Total</b>	<b>839,215</b>	<b>117,233</b>	<b>144,651</b>	<b>88,316</b>	<b>133,524</b>	<b>1,322,939</b>

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

28. FINANCIAL RISK MANAGEMENT (continued)

Market Risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk.

Interest Risk

The Group operates in non-interest banking sector. The only interest risk sensitive financial asset of the Group is Sukuk, which is classified as held to maturity in the financial statements (Note 6). The Group assesses the interest risk arisen from this asset as insignificant to the financial statements.

Currency Risk

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

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the YTL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	December 31, 2007			December 31, 2006		
	Increase/decrease in currency rate in %	Effect on profit before tax	Effect on equity	Increase/decrease in currency rate in %	Effect on profit before tax	Effect on equity
USD and Other	+10	(2,859)	-	+10	(2,989)	-
USD and Other	-10	2,859	-	-10	2,989	-
EUR	+10	379	-	+10	545	-
EUR	-10	(379)	-	-10	(545)	-



Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

28. FINANCIAL RISK MANAGEMENT (continued)

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

December 31, 2007

	EUR	USD	OTHER	YTL	Total
Cash and balances with Central bank	9,490	13,778	371	131,869	155,508
Deposits with banks and financial institutions	50,803	343,007	6,412	21,209	421,431
Reserve deposits at the Central Bank	189,029	519	-	2,263	191,811
Financial assets – available-for-sale	-	577	-	-	577
Financial assets – held-to-maturity	-	5,852	-	-	5,852
Financial assets held for trading	-	-	-	133	133
Due from financing activities, net	558,062	998,296	-	1,191,287	2,747,645
Minimum finance lease payments receivable, net	74,724	59,192	-	27,024	160,940
Derivative financial instruments	-	709	29	3,240	3,978
Other assets	187	637	11,786	11,109	23,719
Construction projects, net	-	-	-	3,140	3,140
Investment properties, net	-	-	-	59,389	59,389
Financial assets held for sale, net	-	-	-	6,673	6,673
Property and equipment, net	-	19	-	69,723	69,742
Intangible assets, net	-	-	-	1,591	1,591
Deferred tax assets	-	-	-	7,886	7,886
<b>Total assets</b>	<b>882,295</b>	<b>1,422,586</b>	<b>18,598</b>	<b>1,536,536</b>	<b>3,860,015</b>
Due to other financial institutions and banks	13,073	420,245	-	-	433,318
Current and profit / loss sharing investors' accounts	681,024	900,863	15,211	1,372,572	2,969,670
Other liabilities	665	2,093	468	31,146	34,372
Provisions	-	-	-	3,226	3,226
Income taxes payable	-	-	-	7,816	7,816
Derivative financial instruments	-	125	-	6,522	6,647
Financial liabilities held for sale, net	-	-	-	544	544
Shareholders' equity	-	-	-	404,422	404,422
<b>Total liabilities and equity</b>	<b>694,762</b>	<b>1,323,326</b>	<b>15,679</b>	<b>1,826,248</b>	<b>3,860,015</b>
<b>Net Balance Sheet Position</b>	<b>187,533</b>	<b>99,260</b>	<b>2,919</b>	<b>(289,712)</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>(183,743)</b>	<b>(131,232)</b>	<b>459</b>	<b>313,929</b>	<b>(587)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

## 28. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2006

	EUR	USD	OTHER	YTL	Total
Cash and balances with central bank	14,866	24,432	1,181	38,619	79,098
Deposits with banks and financial institutions	51,319	229,800	5,658	19,274	306,051
Reserve deposits at the Central Bank of Turkey	174,393	629	-	1,798	176,820
Investment securities					
- available-for-sale	-	1,012	-	-	1,012
Due from financing activities, net	360,746	659,458	-	1,056,764	2,076,968
Minimum financial lease payment receivable, net	64,272	76,447	-	22,828	163,547
Other assets	336	615	11	14,725	15,687
Construction projects, net	-	-	-	4,478	4,478
Intangible assets, net	-	-	-	1,724	1,724
Investment property, net	-	-	-	35,107	35,107
Property and equipment, net	-	47	-	71,923	71,970
Deferred tax assets	-	-	-	18,909	18,909
Derivative financial instruments	-	63	-	-	63
<b>Total assets</b>	<b>665,932</b>	<b>992,503</b>	<b>6,850</b>	<b>1,286,149</b>	<b>2,951,434</b>
Due to other financial institutions and banks	58,483	218,660	-	-	277,143
Current and profit/loss sharing investors' accounts	535,938	910,239	5,002	924,582	2,375,761
Income taxes payable	-	-	-	-	-
Other liabilities	265	1,065	-	24,054	25,384
Provisions	-	-	-	2,537	2,537
Derivative financial instruments	-	4	3	480	487
Total shareholders' equity	-	-	-	270,122	270,122
<b>Total liabilities and equity</b>	<b>594,686</b>	<b>1,129,968</b>	<b>5,005</b>	<b>1,221,775</b>	<b>2,951,434</b>
<b>Net Balance Sheet Position</b>	<b>71,246</b>	<b>(137,465)</b>	<b>1,845</b>	<b>64,374</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>(65,799)</b>	<b>104,388</b>	<b>1,340</b>	<b>(40,460)</b>	<b>(531)</b>

## Pricing Risk

The Group utilizes funds with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

## Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (BRSA) and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2007 and 2006, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

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

**December 31, 2007**

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

**28. FINANCIAL RISK MANAGEMENT (continued)**

*Capital management*

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with BRSA financial statements.

**Regulatory capital**

	2007	2006		
Tier 1 capital	378,008	242,327		
Tier 2 capital	15,491	6,725		
<b>Total capital</b>	<b>393,499</b>	<b>249,052</b>		
Risk weighted assets amount subject to market and operational risk	2,672,367	1,659,602		
	Actual	Required	Actual	Required
Tier 1 capital ratio	14.15%	-	14.60%	
Total capital ratio	14.72%	12%	15.01%	12%

**29. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Fair Values**

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2007, the fair value of financing and leasing receivables has been estimated as YTL 2,888,177 (December 31, 2006 – YTL 1,996,896) whereas their carrying amount is YTL 2,908,585 (December 31, 2006 – YTL 2,240,515).

Fair value of borrowings at amortized costs is estimated as YTL 432,544 (December 31, 2006 – YTL 277,143), whereas their carrying amount is YTL 433,318 (December 31, 2006 – YTL 277,143). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate to their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term. Fair value of held to maturity investment (Sukuk Bond) is estimated as YTL 5,884 (December 31, 2006 – nil), whereas their carrying amount is YTL 5,852 (December 31, 2006 – nil).

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

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

**December 31, 2007**

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

**30. SUBSEQUENT EVENTS**

- a) The Bank has decided to postpone its initial public offer.
- b) The Bank has disposed 65% of its shares in Auto Land to Baytik Capital Holding B.S.C in return for 975,000 USD and 35% of its shares to A'ayan Leasing and Investment Company in return for 525,000 USD with respect to sale agreement dated February 28, 2008.

## CONTACT INFORMATION

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**Head Office Fax:**

+90 (212) 354 1212

**E-mail:**

kuveytturk@kuveytturk.com.tr

**Web Address:**

www.kuveytturk.com.tr

**Branch Network**

As of 31.12.2007

87 branches in Turkey

1 branch in Bahrain

1 representative office in Munich, Germany

**Total Personnel**

As of December 31, 2007, 1,785 staff were employed at KTPB.



## BRANCHES (as of March 2008)

### Head Office:

Büyükdere Cad. No:129 34394  
Esentepe-Şişli/İSTANBUL  
Tel: +90 (212) 354 11 11 (Pbx)  
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Head Office Executive Secretariat: +90 (212) 354 11 00

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### Afyonkarahisar Branch:

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Fax: +90 (272) 213 53 99

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AKSARAY  
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### Altunizade Branch:

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Şehit Teğmen Kalmaz Cad.  
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Fax: +90 (312) 311 66 60

### Antakya (Hatay) Branch:

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Tel: +90 (326) 225 28 01 (Pbx)  
Fax: +90 (326) 225 28 04

### Antalya Branch:

Adnan Menderes Bulvarı  
No: 25/1 ANTALYA  
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Fax: +90 (242) 241 07 00

### Avcılar Branch:

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AVCILAR/İSTANBUL  
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Fax: +90 (212) 509 86 12

### Aziziye (Konya) Branch:

Mevlana Cad. No: 44/B  
KONYA  
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### Bağcılar Branch:

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### Bahçelievler Branch:

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### Balgat Branch:

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No: 53  
BALGAT/ÇANKAYA/ANKARA  
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### Balıkesir Branch:

Milli Kuvvetler Cad. No: 79  
BALIKESİR  
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### Bayrampaşa Branch:

Abdi İpekçi Cad. No: 67  
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Sinanpaşa Mh. Sinanpaşa Köprü Sk.  
No: 12 Beşiktaş/İSTANBUL  
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### Beşyüzevler Branch:

Eski Edirne Asfaltı No:186  
BEŞYÜZEVLER/İSTANBUL  
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### Beyazıt Branch:

Yeniçeriler Cad. No: 7  
ÇEMBERLİTAŞ/EMİNÖNÜ/İSTANBUL  
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### Beylikdüzü Branch:

Beylikdüzü Sanayi Sitesi No: 1-2  
BEYLİKDÜZÜ/İSTANBUL  
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### Bursa Branch:

Ankara Cad. No: 77/1-A  
YILDIRIM/BURSA  
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### Carrefoursa Bayrampaşa Branch:

Carrefour Tic. Merk. B20a  
BAYRAMPAŞA/İSTANBUL  
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### Çağlayan Branch:

Vatan Cad. No: 19/A  
ÇAĞLAYAN/KAĞITHANE/İSTANBUL  
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Fax: +90 (212) 233 30 15

### Colony Branch:

Colony Outlet ve Yaşam Merkezi  
Gültepe Mah. Barbaros Cad.  
KÜÇÜKÇEKMECE/İSTANBUL  
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Fax: +90 (212) 426 11 38

### Çorlu Branch:

Omurtak Cad. No: 79/2  
HEYKEL/ÇORLU  
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### Davutpaşa-Topkapı Branch:

Davutpaşa Cad. No: 119/2  
TOPKAPI-ZEYİTBURNU/İSTANBUL  
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Demetevler 4. Cadde 4/A  
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Fax: +90 (312) 335 99 47

### Denizli Branch:

İkinci Ticariyel Cad. No: 10  
BAYRAMYERİ/DENİZLİ  
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### Dişarbakır Branch:

İnönü Cad. No: 13  
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**Fatih Branch:**

Fevziye Cad. No: 42 34240  
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**Gültepe Branch:**

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Gültepe/İSTANBUL  
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**Güneşli Branch:**

Gülbahar Cad. 6.Sk. No: 66  
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**Isparta Branch:**

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No: 23 ISPARTA  
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**İstoç Branch:**

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**Gıda Çarşısı (İzmir) Branch:**

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Millet Cad. Ünlü Ap. No: 39  
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**Keçiören Branch:**

Kızılarpınarı Cad. No: 55/B  
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**Kızılay Branch:**

Mithatpaşa Cad. No: 31-32  
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Kocatepe Mh. Megacenter Sit. 12. Sk. C Bl  
No: 113 Bayrampaşa/İSTANBUL  
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**Merkez Branch:**

Büyükdere Cad. No: 129  
Esentepe-Şişli/İSTANBUL  
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**Mersin (İçel) Branch:**

Kuvay-i Milliye Cad. No: 13  
MERSİN  
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**Mersin Serbest Bölge Branch:**

Mersin Serbest Bölge F. Ada 3 Parsel  
MERSİN  
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**Merter Branch:**

Fatih Cad. No: 22  
Merter/İSTANBUL  
Tel: (0212) 637 00 87 (PBX)  
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**Nilüfer (Bursa) Branch:**

Üçevler Mah. Nilüfer Cad. No: 6/2  
Nilüfer/BURSA  
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**Operations Branch:**

Büyükdere Cad.  
Raşit Rıza S. 10/4  
Mecidiyeköy/İSTANBUL  
Tel: (0212) 354 50 00 (PBX)

**Osmanbey Branch:**

Halaskargazi Cad. No: 202/A  
Şişli/İSTANBUL  
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**Osmangazi (Bursa) Branch:**

Fevzi Çakmak Cad. No: 43/4  
BURSA  
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**Ostim Branch:**

Ostim M. 100. Yıl Bul. No: 51  
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**Rize Branch:**

Tevfik İleri Cad. No: 16/B  
RİZE  
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**Samsun Branch:**

Kale Mah. Kazım Paşa Cad. No: 17  
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**Sincan Branch:**

Atatürk Mh. Meltem Sk. No: 41  
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**Şirinevler Branch:**

Şirinevler Mh. Meriç Sk. No: 25  
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**Taksim Branch:**

Tarlabası Cad. No: 22  
Taksim/İSTANBUL  
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No: 84 Eyüp/İSTANBUL  
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**Trabzon Branch:**

K. Maraş Cad. Yavuz Han No: 26  
TRABZON  
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**Tuzla Sanayi Branch:**

Birmes Sanayi Sit. D 1 Blk No: 5  
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