

**Kuveyt Türk  
Evkaf Finans Kurumu  
Anonim Şirketi**

**Consolidated Financial Statements  
Together With  
Report of Independent Auditors  
December 31, 2004**

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To the Board of Directors of  
Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi :

1. We have audited the accompanying consolidated balance sheet of Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi (a Turkish corporation - "the Institution") and its subsidiaries as of December 31, 2004, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2004. These consolidated financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. The consolidated financial statements of the Institution and its subsidiaries for the year ended December 31, 2003 were audited by other auditors whose report dated March 19, 2004 expressed a qualified opinion on those consolidated financial statements with respect to (a) the lack of provision related with the tax obligation amounting to TL 5,301 billion for which the Institution had appealed to the Supreme Court and (b) the uncertainty regarding the likelihood of the recoverability of the carrying value of deferred tax asset amounting to TL 19,234 billion.
3. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
4. As disclosed in Note 2 to the accompanying consolidated financial statements, the consolidated balance sheet as of December 31, 2003 which was previously audited by other auditors, has been restated to reflect the retroactive effect of the correction of a fundamental error made in restatement of the paid-in share capital in accordance with IAS 29 ("Financial Reporting in the Hyperinflationary Economics"). The effect of such correction which has no effect on the total shareholders' equity, was to decrease retained earnings and legal reserves and to increase adjustment to share capital by TL 15,509 billion.
5. In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of the Institution and its subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

March 4, 2005  
İstanbul, Turkey

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

**CONSOLIDATED BALANCE SHEET**

**As at December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

**ASSETS**

	Notes	2004	2003
Cash and cash equivalents	3	193,491	191,039
Reserve deposits at the Central Bank of Turkey	4	122,463	112,094
Investment securities			
- available-for-sale securities	5	34,719	17,534
Due from financing activities, net	6	895,434	634,791
Minimum financial lease payment receivable, net	7	185,127	236,333
Other assets	8	25,591	28,310
Construction projects	9	11,608	8,498
Intangible assets, net		186	347
Investment property, net	10	27,568	8,701
Property and equipment, net	11	57,327	49,357
Deferred tax assets	14	18,909	17,404
<b>Total assets</b>		<b>1,572,423</b>	<b>1,304,408</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

		2004	2003
Due to other financial institutions and banks	12	82,730	60,383
Current accounts and profit / loss sharing investors' accounts	13	1,225,268	1,098,545
Income taxes payable	14	-	213
Other liabilities	15	24,384	9,711
Reserve for employment termination benefits	16	1,516	1,351
Bank borrowings		19,045	-
Deferred tax liabilities	14	1,005	-
<b>Total liabilities</b>		<b>1,353,948</b>	<b>1,170,203</b>
<b>Shareholders' equity :</b>			
Share capital	17	199,106	95,310
Adjustment to share capital	17	13,047	24,999
Retained earnings and legal reserves	18	6,322	13,896
<b>Total shareholders' equity</b>		<b>218,475</b>	<b>134,205</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,572,423</b>	<b>1,304,408</b>

The policies and explanatory notes on pages 6 through 35 form an integral part of the consolidated financial statements.

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2004

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Notes	2004	2003
<b>Income from financing activities:</b>			
Profit/loss sharing accounts		102,411	85,031
Current accounts and equity		34,404	23,852
<b>Total income from financing activities</b>		<b>136,815</b>	108,883
Profit shares distributed		(83,902)	(73,565)
<b>Net financing income</b>		<b>52,913</b>	35,318
Reserve for impairment in due from financing activities		(9,405)	(12,208)
<b>Net financing income after reserve for impairment in due from financing activities</b>		<b>43,508</b>	23,110
Foreign exchange gain, net		2,177	7,095
<b>Net financing income after net foreign exchange gain</b>		<b>45,685</b>	30,205
Fee and commission income	19	32,859	24,249
Fee and commission expense		(6,334)	(6,134)
<b>Net fee and commission income</b>		<b>26,525</b>	18,115
Income from construction projects, net		625	774
Other income		7,652	5,069
<b>Total operating income</b>		<b>80,487</b>	54,163
Staff costs	24	(32,452)	(21,950)
Depreciation and amortization expense		(5,237)	(3,733)
Withholdings and other taxes		(3,729)	(6,177)
Rent expense		(3,873)	(3,268)
Other expenses	20	(22,811)	(27,194)
<b>Total operating expenses</b>		<b>(68,102)</b>	(62,322)
<b>Profit before income tax and monetary loss</b>		<b>12,385</b>	(8,159)
Income tax benefit – deferred	14	2,805	18,710
Loss on net monetary position		(8,631)	(7,361)
<b>Net income for the year</b>		<b>6,559</b>	3,190

The policies and explanatory notes on pages 6 through 35 form an integral part of the consolidated financial statements.

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Share Capital	Adjustment to Share Capital	Retained Earnings and Legal Reserves	Total
<b>Balances, at 1 January, 2003</b>	95,310	9,490	27,126	131,926
Effect of restatement	-	15,509	(15,509)	-
<b>Balances at 1 January 2003 (restated)</b>	<b>95,310</b>	<b>24,999</b>	<b>11,617</b>	<b>131,926</b>
Dividends paid	-	-	(911)	(911)
Net income for the year	-	-	3,190	3,190
<b>Balances, at December 31, 2003</b>	95,310	24,999	13,896	134,205
Cash increase in share capital	77,432	686	-	78,118
Transfer from retained earnings to share capital	26,364	(12,638)	(13,726)	-
Dividends paid	-	-	(407)	(407)
Net income for the year	-	-	6,559	6,559
<b>Balances, at December 31, 2004</b>	<b>199,106</b>	<b>13,047</b>	<b>6,322</b>	<b>218,475</b>

The policies and explanatory notes on pages 6 through 35 form an integral part of the consolidated financial statements.

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

**CONSOLIDATED CASH FLOW STATEMENT**

**For the year ended December 31, 2004**

**(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)**

	2004	2003
<b>Cash flows from operating activities:</b>		
Net profit / (loss) before income tax and loss on net monetary position	12,385	(8,159)
Adjustments to reconcile net income / (loss) to net cash used in operating activities:		
Depreciation and amortization	5,237	3,733
Reserve for employment termination benefits	329	315
Reserve for impairment in due from financing activities	9,405	12,208
Provision for impairment in construction projects, property and equipment and assets held for resale	153	9,861
Provision for impairment in available for sale investments	354	357
Income taxes paid	(185)	(887)
Income from funds invested	(8,567)	3,624
Profit shares	(3,381)	947
<b>Operating loss before changes in operating assets and liabilities</b>	<b>15,730</b>	<b>21,999</b>
Increase in cash and cash equivalents with maturity of over than three months	4,477	(4,860)
Increase in reserve deposits at the Central Bank of Turkey	(25,112)	11,260
Increase in due from financing activities	(302,635)	(139,090)
Increase in overdue receivables	(37,041)	86,101
Increase in investment in finance leases	11,158	12,789
Increase in other assets and construction projects	(260)	8,407
Increase in current accounts and profit/loss sharing investors' accounts	275,797	(113,891)
Increase in other liabilities	16,806	(2,636)
<b>Net cash used in operating activities</b>	<b>(41,080)</b>	<b>(119,921)</b>
<b>Cash flows from investing activities:</b>		
Increase in available-for-sale securities	(20,546)	(15,675)
Net additions to property and equipment, intangible assets and investment property	(34,086)	(8,064)
<b>Net cash used in investing activities</b>	<b>(54,632)</b>	<b>(23,739)</b>
<b>Cash flows from financing activities:</b>		
Increase in share capital	78,118	-
Dividends paid	(407)	(911)
Proceeds from other financial institutions	31,092	60,382
Increase in bank borrowings	19,045	-
<b>Net cash provided by financing activities</b>	<b>127,848</b>	<b>59,471</b>
<b>Net increase in cash and cash equivalents</b>	<b>32,136</b>	<b>(84,189)</b>
Inflation effect on cash and cash equivalents	(24,824)	(7,362)
Cash and cash equivalents at the beginning of the year (Note 3)	186,179	277,730
<b>Cash and cash equivalents at the end of the year (Note 3)</b>	<b>193,491</b>	<b>186,179</b>
Profit share received	128,248	113,178
Profit share paid	87,283	72,618

The policies and explanatory notes on pages 6 through 35 form an integral part of the consolidated financial statements.

## **Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

**(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)**

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

Kuveyt Türk Evkaf Finans Kurumu A.Ş. (“the Institution”) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Institution obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. At December 31, 2004, the Institution has 53 branches (December 31, 2003 - 40 branches) that are principally engaged in collecting funds through current accounts and profit/loss sharing accounts, and disbursing funds to the customers. As at December 31, 2004, the Institution has 948 employees (December 31, 2003 - 647 employees). The Institution’s head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul.

The Institution’s subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. (“the Subsidiary”), in which the Institution has 99.9% shareholding was incorporated in June 1996 according to the Turkish Commercial Code. The Subsidiary’s head office is registered in Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/İstanbul. The Subsidiary 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. The Subsidiary’s main sources of revenue are from the sales of these projects and expert valuations carried for third parties.

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

The consolidated financial statements were approved by the Board of Directors of the Institution on March 4, 2005. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

##### **Basis of Preparation**

The consolidated financial statements of the Institution and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect. The consolidated financial statements have been prepared on the historical cost convention except for the measurement at fair value of derivative financial instruments and available for sale financial assets.

The Institution and its subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting policies based on the Turkish Banking Law, Turkish Commercial Code, Turkish Tax Legislation and the relevant rules and regulations of the Banking Regulation and Supervision Agency (“BRSA”). The consolidated financial statements have been prepared from the statutory financial statements of the Institution and its Subsidiaries and presented in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise the effects of restatement for changes in the general purchasing power of Turkish lira, accounting for leasing transactions, deferred taxation, employee termination benefits and measurement of financial instruments.

The Institution and its subsidiaries have not applied any of the amended IFRS and IAS standards, which are going to be effective from January 1, 2005.



## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

##### Fundamental Error

The consolidated balance sheet as of December 31, 2003, has been restated to reflect the retroactive effect of the correction of a fundamental error made in restatement of the share capital in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”). The effect of such correction was to decrease retained earnings and legal reserves and to increase adjustment to share capital by TL 15,509 as of December 31, 2003, thus has no effect on the total balance of shareholders’ equity.

##### Reclassifications of Comparative Figures

Certain reclassifications have been made to the consolidated balance sheet as of December 31, 2003 to be consistent with the current year presentation. Such reclassifications relate primarily to investment property and property and equipment. A building rented to a third party with a net book value of TL 5,803 which had been classified as property and equipment in 2003, has been reclassified in investment property in the accompanying consolidated financial statements as of December 31, 2003.

##### Measurement and Reporting Currency

Measurement and reporting currency of the Institution and its subsidiaries is TL. The restatement for changes in the general purchasing power of TL as of December 31, 2004 is based on IAS 29. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. As of December 31, 2004, the three-year cumulative rate has been 69.7% (as of December 31, 2003 – 181.1%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such indices and conversion factors as are given below :

Dates	Conversion Factors	Index
December 31, 2001	1.697	4,951.7
December 31, 2002	1.297	6,478.8
December 31, 2003	1.138	7,382.1
December 31, 2004	1.000	8,403.3

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

- the financial statements as of and for the year ended December 31, 2003, including monetary assets and liabilities reported therein, are restated in their entirety to the measuring unit current at December 31, 2004.
- monetary assets and liabilities in the balance sheet as of December 31, 2004 are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- the inflation adjusted share capital amount has been derived by indexing cash contributions and transfers from retained earnings from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of shareholders’ equity are restated by applying the relevant conversion factors.

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).
- all items in the income statement are restated by applying appropriate monthly average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortization).

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

#### Consolidation of subsidiaries

The consolidated financial statements comprise of the financial statements of the Institution and its subsidiaries at December 31, each year. Subsidiaries undertakings, in which the Institution, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, has been line-by-line consolidated from the date on which control is transferred to the Institution and ceased to be consolidated from the date on which control is transferred out of the Institution. All material balances and transactions between the Institution and subsidiary are eliminated in these consolidated financial statements.

Details of the subsidiaries subject to consolidation are stated below :

Name of subsidiaries	Country of incorporation	Effective shareholding by the Institution (%)	
		2004	2003
Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. (“Körfez Gayrimenkul”)	Turkey	99,9%	99,9%
Auto Land Otomotiv Sanayi ve Ticaret A.Ş. (“Auto Land”)	Turkey	99,9%	-

#### 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 Institution as of respective period-ends are as follows :

Dates	USD / TL	EUR / TL
December 31, 2003	1,395,835	1,745,072
December 31, 2004	1,342,100	1,826,800

## **Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

##### **Property and Equipment**

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

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

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

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

Assets acquired in exchange for uncollected receivables and held for sale are stated at cost less any impairment in value and recorded in other assets in the consolidated financial statements.

##### **Intangible Assets**

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

##### **Investment Property**

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

Investment property comprises buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, which is 50 years for buildings.

## **Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

##### **Investments Securities**

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges directly associated with the investment. As of December 31, 2004 the Institution maintains only available-for-sale securities portfolio.

Available for sale securities that are actively traded in organized financial markets are subsequently carried at fair value that is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date and the difference between carrying value and fair value is reflected to current year income statement. Available-for-sale securities for which there is no quoted price in an active market are carried at cost less any impairment.

##### **Offsetting**

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

##### **Recognition and Derecognition of Financial Instruments**

The Institution and its subsidiaries recognize a financial asset or financial liability in the balance sheet when and only when they become a party to the contractual provisions of the instrument. The Institution and its subsidiaries derecognize a financial asset or a portion of financial asset when and only when they lose control of the contractual rights that comprise the financial asset or a portion of financial asset. The Institution and its subsidiaries derecognize a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

##### **Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with banks and other financial institutions with an original maturity of less than three month.

##### **Properties Acquired in Satisfaction of Funds**

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

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

Credits originated by the Institution by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as due from financing activities and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

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

## **Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

##### **Provisions for Possible Financing Activities Losses**

Based upon an evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectible amounts in the Institution's fund portfolio, trade finance and lease receivables and losses under guarantees and commitments. If there is objective evidence that the Institution will not be able to collect all amounts due (principal and profit share) according to original contractual terms of the fund, such funds are considered impaired and classified as funds in arrears. The amount of the loss is measured as the difference between the carrying value of the fund utilized and the present value of expected future cash flows discounted or the carrying value of the fund utilized and the fair value of collateral, if the fund utilized is collateralized and foreclosure is probable.

The Institution ceases to recognize income on such credits after transfer to credits in arrears accounts, which are included in sales receivables in the financial statements and on the credits for which the recoverable amount is determined primarily by reference to the fair value of collateral.

The carrying amount of the asset is reduced to its estimated recoverable amount through the use of an allowance for impairment account. A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Recoveries of credits written off in earlier periods are included in income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for credit losses expense. Unwinding of the discount is treated as income and the remaining provision is then reassessed.

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

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

Current accounts and profit loss sharing investors' accounts are initially recognized at cost. After initial recognition, all profit share liabilities are recognized considering the part of attributable profit on credits granted including the amounts repaid and losses attributable. Losses attributable to profit loss sharing investors accounts result from financing transactions and 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 cost. After initial recognition, all interest liabilities are subsequently measured at amortized cost using effective yield method, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Gain or loss is recognized in the income statement when the liability is derecognized or impaired as well as through the amortization process.

## **Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

##### **Employee Termination Benefits**

In accordance with existing social legislation, the Institution and its subsidiaries are required to make lump-sum termination indemnities to each employee who has completed one year of service with the Institution and its subsidiary and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the financial statements, the Institution and its subsidiaries reflect a liability calculated using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Institution and its subsidiaries' experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the average current market yield at the balance sheet date on government bonds.

##### **Provisions**

Provisions are recognized when the Institution 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. 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.

##### **Accounting for Leases**

###### *Finance leases as lessor*

As a special finance house, the Institution is also involved in financial leases (as a lessor). The Institution presents leased assets as a receivable equal to the net investment in the lease. Profit share income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized immediately as expense.

###### *Operating leases as lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to period of notice. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

##### **Income and Expense Recognition**

Commission income and fees for various banking services (such as granting letter of guarantees, letter of credit and money transfers) are recorded as income at the date of collection, which is when the service has been completed.

Income from funds invested from current accounts and equity is recognised on accrual basis. Income from funds invested from profit/loss sharing accounts is recognised on accrual basis and the net income is distributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognised in full and 60% - 90% of this income is recorded as expense for the profit shares distributed.

## **Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

**(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)**

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

##### **Income Tax**

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

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

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

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

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

##### **Use of Estimates**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

##### **Derivative Financial Instruments**

The Institution enters into transaction with derivative instruments including swaps in the foreign exchange and capital markets. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

**3. CASH AND CASH EQUIVALENTS**

	<b>December 31, 2004</b>	December 31, 2003
Cash on hand	37,478	23,021
Balances with the Central Bank	482	297
<b>Cash and balances with the Central Bank</b>	<b>37,960</b>	23,318
Balances with domestic banks	83,299	36,656
Balances with foreign banks	70,522	130,397
Current accounts in special finance houses	1,710	668
<b>Balances with banks and other financial institutions</b>	<b>155,531</b>	167,721
<b>Cash and cash equivalents in the balance sheet</b>	<b>193,491</b>	191,039
Less: Balances with original maturities of more than three months	-	(4,860)
<b>Cash and cash equivalents in the cash flow statement</b>	<b>193,491</b>	186,179

As of December 31, 2004 TL 4,228 (December 31, 2003 – TL 5,005) is kept as compensating balance for the purpose of letters of guarantees given to the Institution's customers by a counterparty.

**4. RESERVE DEPOSITS AT THE CENTRAL BANK OF TURKEY**

	<b>December 31, 2004</b>		December 31, 2003	
	<b>Foreign Currency (full)</b>	<b>TL Equivalent</b>	Foreign Currency (full)	TL Equivalent
US\$	60,746,337	81,528	49,286,114	78,316
EUR	11,358,670	20,750	11,358,670	22,565
TL	-	20,185	-	11,213
		<b>122,463</b>		112,094

According to the regulations of the CBT, the Institution is obliged to reserve a certain portion of its deposits. Such reserves are deposited to the CBT.

As of December 31, 2004 and 2003, reserve deposit rates are 6% and 11% for Turkish lira and foreign currency deposits, respectively.



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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

**5. INVESTMENT SECURITIES**

	<b>December 31, 2004</b>	December 31, 2003
<b>Available for sale securities at fair value</b>		
Equity instruments		
Listed	9,228	11,716
Unlisted	13,673	243
<b>Total available for sale securities at fair value</b>	<b>22,901</b>	<b>11,959</b>
<b>Available for sale securities at cost</b>		
Participation funds (*)	11,408	5,575
Equity instruments - unlisted	410	-
<b>Total available for sale securities</b>	<b>34,719</b>	<b>17,534</b>

(\*) Participation fund represents investments in the Islamic Development Bank and Kuwait Finance House in the amount of US\$ 8,500,000 ( 2003 - US\$3,506,145) Refer to Note 23.

**Unlisted equity shares at fair value**

<b>Name of the company</b>	<b>Nature of business</b>	<b>December 31, 2004</b>		<b>December 31, 2003</b>	
		<b>%</b>	<b>TL</b>	<b>%</b>	<b>TL</b>
Islamic Rating Agency	Financial information	<b>10.58</b>	<b>134</b>	10.58	243
Birleşik Mağazalar A.Ş. (BİM A.Ş.)	Retail Marketing	<b>2.40</b>	<b>13,539</b>	-	-
<b>Total</b>			<b>13,673</b>		<b>243</b>

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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

	<b>2004</b>	2003
<b>Performing :</b>		
Funds invested from profit/loss sharing accounts	<b>600,582</b>	483,102
Funds invested from current accounts and equity	<b>191,861</b>	90,074
Income accruals on due from financing activities	<b>28,708</b>	20,141
	<b>821,151</b>	593,317
<b>Funds in arrears</b>		
Funds invested from profit / loss sharing accounts	<b>125,925</b>	91,035
Funds invested from current accounts and equity	<b>42,046</b>	35,928
	<b>167,971</b>	126,963
<b>Total</b>	<b>989,122</b>	720,280
<b>Reserve for possible Losses</b>		
Funds invested from current accounts and equity	<b>(26,323)</b>	(15,775)
Funds invested from profit / loss sharing accounts - Turkish lira	<b>(3,120)</b>	(7,126)
Funds invested from profit / loss sharing accounts foreign currency	<b>(64,245)</b>	(62,588)
	<b>(93,688)</b>	(85,489)
<b>Total due from financing activities</b>	<b>895,434</b>	634,791

Movements in reserves for impairment in funds disbursed is as follows :

	<b>2004</b>	2003
Balance at 1 January	<b>85,489</b>	103,193
Provisions – Institution	<b>9,815</b>	5,152
Provisions – customers	<b>12,970</b>	(10,346)
Recoveries of amounts previously provided for	<b>(1,982)</b>	(5,338)
Monetary gain	<b>(12,604)</b>	(7,172)
<b>Balance at the end of period</b>	<b>93,688</b>	85,489

When the funds disbursed from profit and loss sharing accounts are impaired, 20% and 10% of the loss is reflected in the income statement of the Institution for the foreign currency and TL due from financing activities, respectively. The remaining portion which is 80%-90% for foreign currency and TL due from financing activities, is reflected to investors' accounts as a deduction to profit shares to be distributed or customer accounts. If the funds invested are disbursed from equity, full provision is charged to income statement.

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

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**7. MINIMUM FINANCIAL LEASE PAYMENT RECEIVABLE, NET**

	<b>2004</b>	2003
Gross investment in finance leases	<b>202,030</b>	241,720
Unearned finance income	<b>(37,221)</b>	(42,064)
Total impaired receivables	<b>45,553</b>	67,816
Reserve for impairment in finance lease receivables	<b>(25,235)</b>	(31,139)
<b>Minimum lease payment receivable, net</b>	<b>185,127</b>	236,333

**Movements in the reserve for impairment**

	<b>2004</b>	2003
Balance at 1 January	<b>31,139</b>	24,632
Provisions – Institution	<b>(5,211)</b>	9,319
Provisions – customers	<b>3,372</b>	7,356
Recoveries of amounts previously provided for	<b>(280)</b>	(2,892)
Monetary gain	<b>(3,785)</b>	(7,276)
<b>Reserve at the end of the year</b>	<b>25,235</b>	31,139

Gross investment in finance leases as to their maturity :

	<b>2004</b>	2003
Not later than 1 year	<b>145,882</b>	152,247
Later than 1 year and not later than 5 years	<b>95,477</b>	149,179
Later than 5 years	<b>6,224</b>	8,110
<b>Minimum lease payment receivables, gross</b>	<b>247,583</b>	309,536
<b>Less : Unearned finance income</b>	<b>(37,221)</b>	(42,064)
Net investment in finance leases	<b>210,362</b>	267,472
Less : Reserve for impairment	<b>(25,235)</b>	(31,139)
<b>Minimum lease payments receivables, net</b>	<b>185,127</b>	236,333

As of December 31, 2004, TL 234,346 (2003 - TL 294,168) of gross lease receivables are denominated in foreign currency (US\$ and EUR).

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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#### 8. OTHER ASSETS

Other assets comprise the following :

	2004	2003
Transitory accounts (**)	10,567	12,758
Assets held for resale (in satisfaction of funds disbursed) (*)	10,057	11,386
Value added tax (VAT) receivable	2,246	1,258
Inventory (mainly from Auto Land)	625	-
Advances and deposits given	22	2,320
Other	2,074	588
	<b>25,591</b>	<b>28,310</b>

(\*) Represent buildings and other fixed assets held for resale which were taken over from customers who have defaulted in payments of receivables. Reserve for impairment of TL 2,738 (2003 - TL 3,233) is provided based on the results of appraisal reports.

(\*\*) Includes mainly receivables from profit share investors and prepaid expenses, amounting to TL 1,992 (2003 - TL 1,244) and TL 1,310 (2003 - TL 1,175) respectively, Tax obligations which the Institution made the payment to the tax office amounting to TL 1,749 (2003 - TL 5,301) is recorded in “transitory accounts” under “other assets”. In 2004, the Institution collected TL 3,551 from the tax office and for the remaining amount TL 1,750, a provision is made in the consolidated financial statements as of December 31, 2004 (Note 15).

#### 9. CONSTRUCTION PROJECTS

Construction projects mainly include the Güre Premises belong to Körfez Gayrimenkul.

	2004	2003
Completed construction projects (inventories)	15,816	12,096
Receivables from construction projects	1,752	3,980
	<b>17,568</b>	<b>16,076</b>
(Less) Provision for impairment in completed projects	(4,846)	(5,691)
(Less) Provision for impairment in receivables	(1,114)	(1,887)
<b>Total construction projects, net</b>	<b>11,608</b>	<b>8,498</b>

#### 10. INVESTMENT PROPERTY

As of December 31, 2003	8,701
Addition	23,664
Depreciation charge	(382)
Impairment provision	(4,415)
<b>As of December 31, 2004</b>	<b>27,568</b>

Investment properties are stated at cost less accumulated depreciation and any impairment in value. Investment properties are depreciated on a straight-line basis over the estimated useful lives of 50 years.

Körfez Gayrimenkul has purchased a warehouse amounting to TL 23,664 in December 2004, which has a net book value of TL 23,624 as of December 31, 2004. Impairment provision for investment properties, excluding the new warehouse, has been calculated over independent valuation reports, which indicate the fair value of investment properties as TL 3,944 as of December 31, 2004. Valuation reports were performed by “Elit Gayrimenkul A.Ş.” which is a real estate appraisal firm licenced by local authority in August 2004 and October 2004.

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

**December 31, 2004**

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**11. PROPERTY AND EQUIPMENT**

	Balance as of December 31, 2003	Additions	Disposals	Reversal of Impairment (*)	Balance as of December 31, 2004
<b>Cost:</b>					
Building	39,699	439	-	2,040	42,178
Furniture and office equipment	23,201	4,942	(12)	-	28,131
Motor vehicles	2,810	-	(60)	-	2,750
Leasehold improvements	3,987	5,070	-	-	9,057
	<b>69,697</b>	<b>10,451</b>	<b>(72)</b>	<b>2,040</b>	<b>82,116</b>
<b>Accumulated Depreciation:</b>					
Building	1,991	683	-	-	2,674
Furniture and office equipment	15,222	2,747	(8)	-	17,961
Motor vehicles	1,572	417	(35)	-	1,954
Leasehold improvements	1,555	645	-	-	2,200
	<b>20,340</b>	<b>4,492</b>	<b>(43)</b>	<b>-</b>	<b>24,789</b>
<b>Net book value</b>	<b>49,357</b>	<b>5,959</b>	<b>(29)</b>	<b>2,040</b>	<b>57,327</b>

(\*) Includes the reversal of prior year impairment (TL 2,355) and current year impairment charge (TL 315). The reversal of the prior year impairment is based on the appraisal reports dated October 25, 2004 and reports are prepared by “Vakıf Gayrimenkul Değerleme A.Ş.”, a real estate appraisal firm licenced by local authority.

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2004 and December 31, 2003 are as follows :

	2004	2003
Furniture and office equipment	<b>1,258</b>	9,514
Motor vehicles	<b>157</b>	1,087
Leasehold Improvements	<b>1,288</b>	1,908
	<b>2,703</b>	12,509

**12. DUE TO OTHER FINANCIAL INSTITUTIONS AND BANKS**

	2004	2003
Kuwait Finance House, Bahrain	<b>6,711</b>	39,712
Other Foreign Special Finance houses	<b>70,539</b>	17,473
Other Banks	<b>5,480</b>	3,198
	<b>82,730</b>	60,383

As of December 31, 2004, due to other financial institutions and banks include TL 5,480 denominated in EUR and TL 77,250 denominated in USD (2003 – TL 60,383). The profit rates of the balances range between 2.80% - 4.90% (December 31, 2003; 2.95% - 3.10%).

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

**December 31, 2004**

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**13. CURRENT AND PROFIT LOSS SHARING INVESTORS' ACCOUNTS**

	<b>2004</b>	2003
Current accounts:		
Turkish lira	<b>92,861</b>	62,019
Foreign currency	<b>166,897</b>	150,656
	<b>259,758</b>	212,675
Profit/loss sharing investors' accounts:		
Turkish lira	<b>247,048</b>	160,549
Foreign currency	<b>709,474</b>	715,170
	<b>956,522</b>	875,719
Blocked accounts:		
Turkish lira	<b>7,408</b>	5,508
Foreign currency	<b>1,580</b>	1,262
	<b>8,988</b>	6,770
<b>Total current accounts and profit/loss investors' accounts</b>	<b>1,225,268</b>	1,095,164
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>-</b>	3,381
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>1,225,268</b>	1,098,545

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

	<b>2004</b>			2003		
	<b>TL</b>	<b>Foreign currency</b>	<b>Total</b>	TL	Foreign currency	Total
Up to 1 month	<b>297,055</b>	<b>617,962</b>	<b>915,017</b>	197,856	591,163	789,019
From 1 month to 3 months	<b>35,118</b>	<b>162,687</b>	<b>197,805</b>	24,501	156,091	180,592
From 3 months to 1 year	<b>10,246</b>	<b>33,577</b>	<b>43,823</b>	5,719	41,758	47,477
Over one year	<b>4,898</b>	<b>63,725</b>	<b>68,623</b>	-	78,076	78,076
	<b>347,317</b>	<b>877,951</b>	<b>1,225,268</b>	228,076	867,088	1,095,164

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

At December 31, 2004 foreign currency current and profit/loss sharing investors' accounts are as follow :

	2004		2003	
	Foreign currency (full)	TL Equivalent	Foreign currency (full)	TL Equivalent
Current and blocked accounts:				
US\$	88,069,443	118,198	73,972,037	117,545
Euro	26,015,984	47,526	16,031,535	31,848
Other	-	2,753	-	2,525
		168,477	-	151,918
Profit/loss sharing investors' accounts:				
US\$	337,737,128	453,277	316,631,882	503,133
Euro	140,243,595	256,197	106,733,021	212,037
Other	-	-	-	-
		709,474		715,170
		877,951		867,088

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

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

#### 14. INCOME TAXES

In 2003, the effective corporation tax rate was 30%. However, with Law No. 5035 published at January 2, 2004, only for the year 2004 the corporation tax is calculated at 33%. In 2005, the effective corporation tax will be 30%.

The tax legislation provides for a temporary tax of 30% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, temporary taxes for the year 2004 is calculated and paid at the rate of 33%.

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

In 2003 and prior years corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting. With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code. Income Tax Law and Corporation Tax Law, starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet is not subject to corporation tax, and similarly accumulated deficits arising from such application is not deductible for tax purposes. Moreover, accumulated tax loss carry forwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years. Certain changes have been made in the application of the inflation adjustment to the statutory accounts with Law No. 5228 published on July 31, 2004. The Institution and its subsidiary have adjusted their statutory accounts at June 30, 2004 considering the requirements of the new law and has reflected the tax charge accordingly in the financial statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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#### 14. INCOME TAXES (continued)

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

In Turkey, tax regulations do not provide a procedure for final agreement of tax assessments. Tax returns are filed within four months after the end of the year to which they relate to and tax authorities may examine the accounting records and revise assessments within five years.

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

The Institution has no current taxes in 2004 due to the investment incentives.

Because of the lawsuit and dispute with tax office which is subject to tax penalty amounting to TL 5,301 previously paid to tax office, the Institution applied to benefit from Tax Peace Law on March 29, 2003. Even though the tax authority has not accepted the application, the Institution applied to court and it was decided that the Institution might benefit from tax peace agreement. Due to the tax peace agreement, TL 3,501 TL has been refunded to the Institution at April 2004 by the tax authority. The lawsuit which was opened contrary by the tax authority is still continuing.

Breakdown of income tax expense credit is as follow :

	2004	2003
Current tax expense	-	786
Deferred tax benefit	2,805	17,924
<b>Total income tax expense/(benefit)</b>	<b>2,805</b>	<b>18,710</b>

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the institutions effective income tax rate for the year ended December 31, 2004 was as follows :

	2004
Net profit from ordinary activities before income tax	3,754
At Turkish statutory income tax rate of 33%	1,239
Effect of income not subject to tax	(545)
Effect of expenditure not allowable for income tax purposes and other	3,401
Effect of restatement and other	4,715
Effect of impairment	(467)
Effect of investment incentive	(5,538)
Income tax	2,805



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**14. INCOME TAXES (continued)**

Deferred income tax as of December 31, 2004 and 2003 are attributable to the following items :

	<b>Deferred tax assets/(liabilities)</b>	
	<b>2004</b>	<b>2003</b>
Accounting for finance leases	<b>28,880</b>	30,418
Provision for impairment in due from financing activities and investment in finance leases	<b>411</b>	1,758
Reserve for employment termination benefits	<b>455</b>	405
Lease obligation	<b>-</b>	30
Effect of other temporary differences	<b>1,614</b>	812
Investment incentive	<b>11,581</b>	7,927
<b>Deferred tax assets</b>	<b>42,941</b>	41,350
Restatement of property and equipment, intangible assets and assets held for resale	<b>1,934</b>	1,958
Restatement of construction projects	<b>468</b>	426
Provision for impairment in due from financing activities (profit share investors' portion)	<b>2,736</b>	-
Effect of other temporary differences	<b>619</b>	145
<b>Deferred tax liabilities</b>	<b>5,757</b>	2,529
<b>Deferred tax asset - net</b>	<b>37,184</b>	38,821
<b>Impairment for deferred tax asset</b>	<b>(19,280) (*)</b>	(21,417)
<b>Deferred tax asset - net</b>	<b>17,904</b>	17,404

(\*) The potential net deferred tax assets arising on temporary differences have not been fully recognized as of December 31, 2004, on the basis that a portion amounting to TL 19,280 (December 31, 2003 – TL 21,417) will not be realized in the foreseeable future.

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

	<b>2004</b>
Balance at January 1	17,404
Deferred income tax recognized in income statement	2,805
Monetary loss	(2,305)
<b>Balance at December 31, 2004</b>	<b>17,904</b>

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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#### 15. OTHER LIABILITIES

	2004	2003
Payables to exporters and suppliers	6,273	543
Notes payable	5,368	-
Withholding tax and other tax payables	4,268	5,148
Deferred revenue	4,049	172
Provision for taxation penalty (Note 8)	1,749	-
Expense payable	733	2,438
Other	1,944	1,410
	<b>24,384</b>	<b>9,711</b>

#### 16. RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

In accordance with existing social legislation, the Institution and its subsidiaries are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 1,574 and TL 1,390 at December 31, 2004 and 2003, 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, 2004 and 2003, the Institution and its subsidiaries reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bond.

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

	2004	2003
Discount rate	6%	6%
Turnover rate to estimate the probability of retirement	5%	6%

Actuarial gains and losses are recognized in the income statement in the period they occur.

The movement in provision for retirement pay liability is as follows :

	2004
Balance at January 1	1,351
Actuarial gain	(96)
Utilized/paid	(203)
Increase during the year	628
Monetary gain	(164)
Balance at the end of period	<b>1,516</b>

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

#### 17. SHARE CAPITAL

	2004	2003
Number of common shares, TL one hundred thousand, par value. Authorized, issued and outstanding.	<b>1,991.06 million</b>	953.1 million

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

	2004		2003	
	Number	TL	Number	TL
At January 1	953,100,000	95,310	953,100,000	95,310
Shares issued in				
- bonus shares from retained earnings	131,820,000	13,182	-	-
- bonus shares from revaluation adjustment	131,820,000	13,182	-	-
- cash	774,320,000	77,432	-	-
At December 31	<b>1,991,060,000</b>	<b>199,106</b>	953,100,000	95,310

As of December 31, 2004 and 2003, the composition of shareholders and their respective % of ownership can be summarized as follows :

	2004		2003	
	Amount	%	Amount	%
Kuwait Finance House	123,912	62.2	58,861	61.8
Directorate of Vakıf Foundations, Turkey	37,271	18.7	17,841	18.7
The Public Institution for Social Security, Kuwait	17,920	9.0	8,578	9.0
Islamic Development Bank	17,920	9.0	8,578	9.0
Other	2,083	1.1	1,452	1.5
Historical Amount	<b>199,106</b>		95,310	
Adjustment to Share Capital	<b>13,047</b>		24,999	
<b>Total Share Capital</b>	<b>212,153</b>		<b>120,309</b>	

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

In October 2004, the Institution has increased share capital by cash contribution amounting to TL 78,118.

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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#### 18. LEGAL RESERVES AND RETAINED EARNINGS

##### Retained Earnings and Legal Reserves

As per Turkish Commercial Code, accumulated profits as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Institution and its Subsidiaries are required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or absorption of losses:

- First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid up share capital,
- Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit, it may be used to absorb losses,

Reserves held by the Institution as per the statutory financial statements are as follows :

	2004 (*)	2003 (historical)
Legal reserves	22,830	954
Retained earnings	53,468	2,774

(\*) In line with Law No. 5024 published on December 30, 2003 (inflation correction), the Institution has adjusted its statutory accounts at December 31, 2004 considering the requirements of the new law. Therefore, related figures at December 31, 2004 include the statutory inflation adjustment effects.

#### 19. FEE AND COMMISSION INCOME

	2004	2003
Service commissions	14,985	9,741
Credit card fees and commissions	6,222	2,684
Communication expense charges	2,947	4,811
POS commission income	1,925	625
Income from agency activities	1,807	1,497
Letter of guarantee charges	1,210	993
Import letter of credit commissions	1,055	1,217
Electronic fund transfer (EFT) charges	1,015	815
Other	1,693	1,866
	<b>32,859</b>	<b>24,249</b>

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

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**20. OTHER EXPENSES**

	<b>2004</b>	2003
Impairment expense on property and equipment	<b>3,910</b>	2,355
Impairment expense on available-for-sale securities	-	357
Impairment expense on Completed projects	-	6,196
Impairment expense on asset held for resale	-	1,325
<b>Impairment charges</b>	<b>3,910</b>	10,233
Advertising expenses	<b>5,691</b>	2,208
Professional fees	<b>2,338</b>	3,395
Communication expenses	<b>2,218</b>	1,976
Insurance fund premium expense	<b>1,475</b>	1,581
Travel and representation expenses	<b>1,087</b>	734
Stationery and subscription expenses	<b>838</b>	1,054
Energy expenses	<b>759</b>	701
Clearing expense	<b>623</b>	435
Insurance expense	<b>512</b>	358
Repair and maintenance expenses	<b>492</b>	904
Asset to be sold sale loss	-	1,138
Other	<b>2,868</b>	2,477
<b>Other expenses</b>	<b>18,901</b>	16,961
	<b>22,811</b>	27,194

**21. DERIVATIVE TRANSACTIONS**

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 favorable (assets) and unfavorable (liabilities) 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 period-end and are neither indicative of the market risk nor credit risk.

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

	December 31, 2004							
	Income accrual assets	Expense accrual liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
<b>Derivatives held for trading</b>								
Currency swap purchase	537	-	106,701	106,567	134	-	-	-
Currency swap sale	-	10	105,960	105,810	150	-	-	-
	537	10	212,661	212,377	284	-	-	-

As of December 31, 2003, the Institution and its subsidiaries have not entered into derivative transactions.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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#### 22. COMMITMENTS AND CONTINGENCIES

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

- a) The following is a brief summary of significant contingencies and commitments as of December 31, 2004 and 2003 :

	2004	2003
Letters of guarantee issued by the Institution	138,597	118,766
Letters of credits	66,194	71,420
Acceptance credits	14,469	9,225
Total	219,260	199,411

Future minimum rental payables under operating leases are as follows :

	2004	2003
Within one year	4,018	3,835
After one year but not more than five years	9,517	10,948
More than five years	310	866
Total	13,845	15,649

- b) There is a lawsuit between the subsidiary of the Institution and one of its service suppliers with respect to the profit sharing agreement of Güre project (Note 1), which was filed to Arbitration Committee Court in November – 2003 in accordance with the articles of the profit sharing agreement. The case is currently pending for the decision of the Experts Committee appointed by the Arbitration Committee Court. No adjustment has been established in the consolidated financial statements as of December 31, 2004 with regard to this matter as the Institution's management believes that the Court's decision will probably be in favour of the subsidiary.

**Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries**

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

**December 31, 2004**

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**23. RELATED PARTY DISCLOSURES**

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

The following significant balances invested as of December 31, 2004 and transactions have been entered into with related parties during the year then ended :

**i) Due from financial institutions :**

		2004		2003	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House	Kuwait Dinar	239,419	1,081	1,124,713	6,011
	US\$	48,390	65	24,141	39
	EUR	5,000	9	5,000	10
			1,155		6,060

**ii) Available for sale investments :**

		2004		2003	
		Foreign Currency (full)	TL equivalent	Foreign Currency (full)	TL equivalent
Kuwait Finance House (K.S.C.)	US\$	8,000,000	10,737	3,000,000	4,765
Islamic Development Bank participation fund	US\$	500,000	671	500,000	805
Kuwait Finance House (K.S.C.)	Kuwait Dinar	746,200	3,370		
			14,778		5,570

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

		2004		2003	
		Foreign Currency (full)	TL equivalent	Foreign Currency (full)	TL equivalent
Kuwait Finance House	US\$	5,012,056	6,727	25,000,000	39,725

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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

##### iv) Profit/loss sharing investors' accounts :

		2004		2003	
		Foreign Currency (full)	TL equivalent	Foreign Currency (full)	TL equivalent
Kuwait Finance House	US\$	225,066	302	7,699,491	12,230
Kuwait Finance House	TL	-	133	-	-
Islamic Development Bank	US\$	3,000,000	4,026	72,795	116
Islamic Development Bank	TL	-	144	-	-
Directorate of Vakıf Foundations, Turkey	TL	-	1,851	-	1,770
Islamic Rating Agency	US\$	1,000,000	1,342	-	-
			<b>7,798</b>		<b>14,116</b>

##### v) Long term bank borrowings :

		2004		2003	
		Foreign Currency (full)	TL equivalent	Foreign Currency (full)	TL equivalent
Kuwait Finance House	US\$	14,190,116	19,045	-	-
					-

##### vi) Profit shares distributed :

		2004		2003	
		Foreign Currency (full)	TL equivalent	Foreign Currency (full)	TL equivalent
Kuwait Finance House	US\$	122,116	163	356,768	406
Directorate of Vakıf Foundations, Turkey	TL	-	297	-	500
			<b>460</b>		<b>906</b>

##### vii) Non cash loans issued :

		December 31, 2004		December 31, 2003	
		Foreign Currency (full)	TL equivalent	Foreign Currency (full)	TL equivalent
Kuwait Finance House	US\$	1,547,575	2,077	-	-
Other	TL	-	34	-	7
			<b>2,111</b>		<b>7</b>

#### Directors' Remuneration

The executive members of the Board of Directors received remuneration totalling TL 157,500 during 2004 (2003 – TL 136,607).



## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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#### 24. STAFF COSTS

	2004	2003
<b>Staff costs</b>		
Wages and salaries	22,657	16,164
Social security premiums	4,995	2,354
Other fringe benefits	3,874	2,352
Provision for employee termination benefits	329	277
Other	597	803
<b>Total</b>	<b>32,452</b>	<b>21,950</b>

The average number of employees for the years is :

	2004	2003
The Institution	802	581
Körfez Gayrimenkul	11	17
Auto Land	4	-
<b>Total</b>	<b>817</b>	<b>598</b>

#### 25. FINANCIAL RISK MANAGEMENT

##### Credit Risk

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

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

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	2004	2003
Textile and leather	219,506	158,461
Food and beverage	129,168	108,116
Chemicals and petroleum	72,905	48,846
Metal products	60,226	42,551
Automotive	56,263	21,470
Construction	49,131	36,858
Forestry	41,207	24,148
Electronics	31,698	30,408
Paper	26,154	20,386
Health and social services	24,560	14,919
Computer	12,679	7,075
Leasing	6,343	10,509
Other industries	62,603	49,429
	<b>792,443</b>	<b>573,176</b>

#### Liquidity Risk

Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Institution within the normal terms of trade. To manage the risk, the financial liabilities of large customers are regularly assessed by the Institution. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

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

## Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

December 31, 2004

	Demand and less than 1 month	1 to 3 months	3 to 12 months	Over 1 year	No Maturity	Total
Cash and cash equivalents	155,898	-	-	-	37,593	193,491
Reserve deposits at the Central Bank of Turkey	-	-	-	-	122,463	122,463
Investment securities available-for-sale	671	-	10,736	-	23,312	34,719
Due from financing activities	82,831	141,241	341,201	255,878	74,283	895,434
Investment in finance leases	23,326	12,261	47,613	81,609	20,318	185,127
Other assets	14,800	60	13	28	10,690	25,591
Construction projects	-	-	-	543	11,065	11,608
Intangible assets	-	-	-	-	186	186
Investment property	-	-	-	-	27,568	27,568
Property and equipment	-	-	-	-	57,327	57,327
Deferred tax assets	-	-	-	-	18,909	18,909
<b>Total assets</b>	<b>277,526</b>	<b>153,562</b>	<b>399,563</b>	<b>338,058</b>	<b>403,714</b>	<b>1,572,423</b>
Due to other financial institutions and banks	18,845	50,699	13,186	-	-	82,730
Current accounts and profit/loss sharing investors' accounts	895,383	235,283	89,544	5,058	-	1,225,268
Other liabilities	14,223	10,161	-	-	-	24,384
Reserve for employment termination benefits	-	-	-	-	1,516	1,516
Bank borrowings	-	-	-	19,045	-	19,045
Deferred tax liabilities	-	-	-	-	1,005	1,005
Total equity	-	-	-	-	218,475	218,475
<b>Total liabilities and equity</b>	<b>928,451</b>	<b>296,143</b>	<b>102,730</b>	<b>24,103</b>	<b>220,996</b>	<b>1,572,423</b>
<b>Net Balance Sheet Liquidity Gap</b>	<b>(650,925)</b>	<b>(142,581)</b>	<b>296,833</b>	<b>313,955</b>	<b>182,718</b>	<b>-</b>
<b>Net Off-Balance Sheet Liquidity Gap</b>	<b>757</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>741</b>
<b>Total Gap</b>	<b>(650,168)</b>	<b>(142,597)</b>	<b>296,833</b>	<b>313,955</b>	<b>182,718</b>	<b>741</b>
<b>As at December 31, 2003</b>						
Total Assets	270,181	122,140	340,889	285,127	286,071	1,304,408
Total Liabilities and equity	846,606	228,994	47,476	46,914	134,418	1,304,408
<b>Net balance sheet liquidity gap</b>	<b>(576,425)</b>	<b>(106,854)</b>	<b>293,413</b>	<b>238,213</b>	<b>151,653</b>	<b>-</b>
<b>Net Off-Balance sheet liquidity gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Gap</b>	<b>(576,425)</b>	<b>(106,854)</b>	<b>293,413</b>	<b>238,213</b>	<b>151,653</b>	<b>-</b>

#### Currency Risk

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

December 31, 2004

	USD	EUR	OTHER	TL	Total
Cash and cash equivalents	99,976	41,840	7,161	44,514	193,491
Reserve deposits at the Central Bank of Turkey	81,528	20,750	-	20,185	122,463
Investment securities	-	-	-	-	-
- available-for-sale securities	11,408	-	9,228	14,083	34,719
Due from financing activities	451,010	168,015	-	276,409	895,434
Investment in finance leases	92,970	36,434	-	55,723	185,127
Other assets	628	2,206	112	22,645	25,591
Construction projects	-	-	-	11,608	11,608
Intangible assets	-	-	180	6	186
Investment property	-	-	-	27,568	27,568
Property and equipment	-	-	110	57,217	57,327
Deferred tax assets	-	-	-	18,909	18,909
	-	-	-	-	-
<b>Total assets</b>	<b>737,520</b>	<b>269,245</b>	<b>16,791</b>	<b>548,867</b>	<b>1,572,423</b>
	-	-	-	-	-
Due to other financial institutions and banks	77,235	5,495	-	-	82,730
Current accounts and profit/loss sharing investors' accounts	571,362	303,809	2,780	347,317	1,225,268
Other liabilities	1,036	6,864	1,731	14,753	24,384
Reserve for employment termination benefits	-	-	-	1,516	1,516
Bank borrowings	19,045	-	-	-	19,045
Deferred tax liabilities	-	-	-	1,005	1,005
Total equity	-	-	-	218,475	218,475
	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>668,678</b>	<b>316,168</b>	<b>4,511</b>	<b>583,066</b>	<b>1,572,423</b>
	-	-	-	-	-
<b>Net Balance Sheet Position</b>	<b>68,842</b>	<b>(46,923)</b>	<b>12,280</b>	<b>(34,199)</b>	<b>-</b>
	-	-	-	-	-
<b>Net Off-Balance Sheet Position</b>	<b>(94,950)</b>	<b>37,851</b>	<b>198</b>	<b>57,642</b>	<b>741</b>
	-	-	-	-	-
<b>As at December 31, 2003</b>					
Total Assets	683,909	244,265	21,982	354,252	1,304,408
Total Liabilities & Equity	681,521	245,231	2,529	375,127	1,304,408
	-	-	-	-	-
<b>Net Balance Sheet Position</b>	<b>2,388</b>	<b>(966)</b>	<b>19,453</b>	<b>(20,875)</b>	<b>-</b>
	-	-	-	-	-
<b>Net Off-Balance Sheet Position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Profit Rate Risk

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

December 31, 2004

Assets	US\$ %	EUR %	TL %
Cash and due from banks	2.18	2.03	18.35
Due from financing activities	7.71	7.47	25.02
Investments finance in leases	7.06	6.4	25.46
<b>Liabilities</b>			
Profit/loss sharing investors' accounts	3.19	3.24	23.12
Due to other financial institutions and banks	3.41	3.00	-

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

December 31, 2003

Assets	US\$ %	EUR %	TL %
Cash and due from banks	1.10	2.50	27.78
Due from financing activities	7.93	8.01	40.07
Investments in leases	8.96	7.97	51.20
<b>Liabilities</b>			
Profit/loss sharing investors' accounts	2.90	2.95	30.20
Due to other financial institutions and banks	2.99	-	-

#### Market Risk

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

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

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

#### Capital Adequacy

To monitor the adequacy of its capital, the Institution uses ratios established by Banking Regulation and Supervision Agency (BRSA) and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Institution's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2004 and December 31, 2003, the Institution's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

#### 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

##### Fair Values

Fair values of due from financing activities are considered to approximate their carrying values as the profit shares applicable to those receivables are in line with market rates which are sensitive to interest rates and mainly due to short-term nature of these receivables. The fair value of the whole fund portfolio is estimated by assessing the risk components of the portfolio.

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