

**Kuveyt Türk
Katılım Bankası
Anonim Şirketi**

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

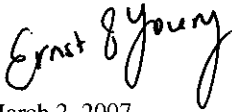
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



March 2, 2007
Istanbul, Turkey

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

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

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT For the year ended December 31, 2006 (Currency – In thousands of New Turkish Lira - YTL)

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

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

1. CORPORATE INFORMATION

General

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

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

The consolidated financial statements were approved by the Board of Directors of the Bank on March 2, 2007. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Bank and its Subsidiaries

At December 31, 2006, the Bank has 78 branches and 1 off-shore branch (December 31, 2005 - 67 branches and 1 off-shore branch) that are principally engaged in collecting funds through current and profit/loss sharing accounts, and disbursing funds to the customers. As at December 31, 2006, the Bank has 1,392 employees (December 31, 2005 – 1,265 employees).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared on the historical cost convention except for derivative financial instruments, financial assets at fair value through profit or loss and available for sale investments that have been measured at fair value.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

2.2 Changes in accounting policies

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, as follows:

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

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Reclassifications of Comparative Figures

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

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

2.4 Summary of Significant Accounting Policies

Significant Accounting Judgments and Estimates

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

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

Consolidation of Subsidiaries

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2006 and December 31, 2005 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2006 and 2005, respectively. Subsidiaries are all entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Details of the subsidiaries subject to consolidation are stated below :

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

Foreign Currency Translation

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

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

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

Property and Equipment

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

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

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction Projects

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

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

Investment Properties

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

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

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

Intangible Assets

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

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

Impairment of Non-Financial Assets

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets

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

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

Available For Sale Financial Investments

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale securities are subsequently carried at fair value. Unrealized gains and losses are recognized directly in equity. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

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

For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date. For investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried cost less any impairment.

Financial assets at fair value through profit or loss

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

Due from Financing Activities, net

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

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

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

Offsetting Financial Instruments

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

Recognition and Derecognition of Financial Instruments

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

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

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

Where the Bank and its subsidiaries have transferred their rights to receive cash flows from an asset and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank and its Subsidiaries continuing involvement in the asset.

The Bank and its subsidiaries derecognize a financial liability when the obligation under the liability is discharged or cancelled or expires.

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

Cash and Cash Equivalents

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

a) *Assets carried at amortized cost*

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

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

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in income statement. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank and its Subsidiaries first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

b) *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

c) *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

Current Accounts and Profit Loss Sharing Investors' Accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost. After initial recognition, all profit share liabilities are recognized considering the part of attributable profit on credits granted including the amounts repaid and losses attributable. Losses attributable to profit loss sharing investors accounts result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

Due to Other Financial Institutions and Banks

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

Employee Benefits

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

(a) *Defined Benefit Plans:*

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Defined Contribution Plans:

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

Provisions

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

Leases

Finance leases as lessor

As a Participation Bank, the Bank is also involved in financial leases (as a lessor). The Bank presents leased assets as a receivable equal to the net investment in the lease. Profit share income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of finance lease receivable and reduce the amount of income recognized over the lease term.

Operating leases as lessee

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

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

Income and Expense Recognition

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

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

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

Borrowing costs are expensed as incurred.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax

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

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. As of December 31, 2006, the Bank and its Subsidiaries do not have any current tax expense.

Deferred tax

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

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

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

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

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

Fiduciary Assets

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

Subsequent Events

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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3. CASH AND BALANCES WITH BANKS

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

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

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

4. RESERVE DEPOSITS AT THE CENTRAL BANK OF TURKEY

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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5. FINANCIAL INVESTMENTS

Available for sale – at cost

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

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

Nature of business	2006		2005	
	%	Amount	%	Amount
Islamic Rating Agency	15.54	305	7.41	134
Others	-	-	-	238
		305		372

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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6. DUE FROM FINANCING ACTIVITIES, NET

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

Movement in impairment allowance for funds disbursed is as follows :

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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7. MINIMUM FINANCIAL LEASE PAYMENT RECEIVABLE, NET

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

Movements in the impairment allowance

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

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

Gross investment in finance leases as to their maturity :

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

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

Net investment in finance leases as to their maturity:

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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8. OTHER ASSETS

Other assets comprise the following :

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

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

9. CONSTRUCTION PROJECTS, NET

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

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

10. INVESTMENT PROPERTIES, NET

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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10. INVESTMENT PROPERTIES, NET (continued)

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

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

11. PROPERTY AND EQUIPMENT, NET

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

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

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11. PROPERTY AND EQUIPMENT, NET (continued)

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

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

12. INTANGIBLE ASSETS, NET

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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13. DUE TO OTHER FINANCIAL INSTITUTIONS AND BANKS

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

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

14. CURRENT AND PROFIT LOSS SHARING INVESTORS' ACCOUNTS

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

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

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

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

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

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

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

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

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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15. INCOME TAXES

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

In Turkey, the corporation tax rate for the fiscal year ending December 31, 2005 was 30%. Effective from January 1, 2006 corporate tax rate is reduced to 20%. Corporate tax returns are required to be filed by the fifteenth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% (2005 - 30%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from January 1, 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to December 31, 2005 will be able to deduct such amounts from corporate income until the end of December 31, 2008; however, the corporate tax rate will be 30% for them. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 will be subject to investment incentive until the end of December 31, 2008. The Bank elected to utilize investment incentive allowance, therefore until the end of 2008 the corporate tax rate applicable to the Bank will be 30%.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

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

	2006	2005
Current tax expense	-	-
Deferred tax benefit	286	717
Total income tax benefit	286	717

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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15. INCOME TAXES (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the periods ended December 31, 2006 and 2005 is as follows :

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

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

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

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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15. INCOME TAXES (continued)

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

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

16. OTHER LIABILITIES AND PROVISIONS

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

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

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

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16. OTHER LIABILITIES AND PROVISIONS (continued)

Reserve For Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 1,857 (full) and YTL 1,727 (full) at December 31, 2006 and 2005, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2006 and December 31, 2005, the Bank and its subsidiaries reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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18. SHARE CAPITAL

	2006	2005
Number of common shares, YTL 0.1, par value. Authorized and issued.	2,001.88 million	2,001.88 million

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

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

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

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

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

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

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

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

Legal Reserves

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

Dividends Paid and Proposed

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

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20. FEES AND COMMISSION INCOME AND EXPENSE

	2006	2005
Fees and commission income		
Service commissions	29,406	22,223
Credit card fees and commissions	13,044	16,547
Letter of guarantee charges	9,637	2,994
Communication expense charges	6,838	4,744
POS commission income	4,048	1,269
Import letter of credit commissions	2,838	1,692
Income from agency activities	925	1,070
Other	3,307	2,041
Total	70,043	52,580

	2006	2005
Fees and commission expense		
Credit Card Machine and ATM Commission	1,532	983
Fees paid for credit card	9,235	5,654
Brokerage fees on borrowings	315	289
Other	978	737
Total	12,060	7,663

21. OTHER EXPENSES

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

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22. COMMITMENTS AND CONTINGENCIES

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

The following is a brief summary of significant contingencies and commitments as of December 31, 2006 and 2005:

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

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

Future minimum rental payables under operating leases are as follows :

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

Fiduciary Activities

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

23. RELATED PARTY DISCLOSURES

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

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

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23. RELATED PARTY DISCLOSURES (continued)

i) Due from financial institutions :

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

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

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

iii) Due to other financial institutions :

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

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

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

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

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23. RELATED PARTY DISCLOSURES (continued)

v) Profit shares distributed :

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

vi) Non cash credits issued :

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

(1) Shareholders.

Directors' Remuneration

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

The key personnel of the Bank is listed as follows;

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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24. SALARIES AND EMPLOYEE BENEFITS

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

The average number of employees for the years is :

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

25. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

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

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

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

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

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25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

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

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

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

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

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

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

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

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

Liquidity Risk

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

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

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25. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2006

	Demand and less than 1 month	1 to 3months	3 to 12 months	Over 1 year	Unallocated	Total
Cash and balance with central bank	79,098	-	-	-	-	79,098
Deposits with banks and financial institutions	306,051	-	-	-	-	306,051
Reserve deposits at the Central Bank of Turkey	176,820	-	-	-	-	176,820
Investment securities available-for-sale	707	-	-	-	305	1,012
Due from financing activities, net	258,120	314,138	796,038	677,731	30,941	2,076,968
Minimum financial lease payment receivable, net	13,424	14,322	54,394	74,121	7,286	163,547
Derivative financial instruments	63	-	-	-	-	63
Other assets	11,373	-	-	-	4,314	15,687
Construction projects, net	-	-	-	-	4,478	4,478
Intangible assets, net	-	-	-	-	1,724	1,724
Investment property, net	-	-	-	-	38,290	38,290
Property and equipment, net	-	-	-	-	68,787	68,787
Deferred tax assets	-	-	-	-	18,909	18,909
Total assets	845,656	328,460	850,432	751,852	175,034	2,951,434
Due to other financial institutions and banks	23,317	53,712	180,098	20,016	-	277,143
Current and profit/loss sharing investors' accounts	2,049,576	223,974	100,552	1,659	-	2,375,761
Other liabilities	17,882	6,804	698	-	-	25,384
Provisions	-	-	-	2,537	-	2,537
Derivative financial instruments	487	-	-	-	-	487
Total shareholders' equity	-	-	-	-	270,122	270,122
Total liabilities and equity	2,091,262	284,490	281,348	24,212	270,122	2,951,434
Net balance sheet liquidity gap	(1,245,606)	43,970	569,084	727,640	(95,088)	-
Net off-balance sheet liquidity gap	(531)	-	-	-	-	(531)
Total gap	(1,246,137)	43,970	569,084	727,640	(95,088)	(531)
As at December 31, 2005						
Total assets	734,313	263,607	627,240	564,100	172,405	2,361,665
Total liabilities and equity	1,578,314	302,713	220,612	27,535	232,491	2,361,665
Net balance sheet liquidity gap	(844,001)	(39,106)	406,628	536,565	(60,086)	-
Net off-balance sheet liquidity gap	58	-	-	-	-	58
Total gap	(843,943)	(39,106)	406,628	536,565	(60,086)	58

Currency Risk

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

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

25. FINANCIAL RISK MANAGEMENT (continued)

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

December 31, 2006

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

Profit Rate Risk

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

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25. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2006

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

December 31, 2005

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

(*) Represent the fixed profit rate.

(**) Represents the variable profit rate.

Market Risk

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

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

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

Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (BRSA) and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2006 and 2005, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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

Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate to their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

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

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

27. SUBSEQUENT EVENTS

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