**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**

Consolidated Interim Financial Information
As of 30 June 2007
Together With
Independent Auditors' Review Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

17 August 2007

*This report includes 1 page of independent auditors' review report and 62 pages of consolidated interim financial information together with their explanatory notes.*

# Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
# And Its Subsidiaries

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# Report on Review of Interim Financial Information

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

We have reviewed the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries (collectively "the Group") as of 30 June 2007 and related statements of income, changes in shareholders' equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 – *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review. The consolidated financial statements of the Group as of and for the year ended 31 December 2006 and the consolidated interim financial information of the Group as of and for the six-month period ended 30 June 2006 were audited and reviewed, respectively by another auditor who expressed a qualified opinion for the adjustments as maybe required in respect of liability adequacy tests in insurance business which were not performed by the Group, in their report dated 25 May 2007 for the consolidated financial statements as of 31 December 2006 and a qualified review report for the adjustments as maybe required in respect of liability adequacy tests in insurance business which were not performed by the Group, in their review report dated 20 November 2006 for the interim financial information as of and for the six-month period ended 30 June 2006. We did not review the financial statements of certain consolidated companies as of 30 June 2007, which statements reflect total assets constituting 6.32 percent; and total operating income constituting (4.03) percent as of and for the six-month period ended 30 June 2007 of the related consolidated totals. Those statements were reviewed by other auditors whose reports have been furnished to us, and our review report, insofar as it relates to the amounts included for those companies is based solely on the reports of the other auditors.

We conducted our review in accordance with International Standard on Review Engagements 2400 – *Engagements to Review Financial Statements*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the financial position of the Group as of 30 June 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 – *Interim Financial Reporting*.

Istanbul, Turkey
17 August 2007

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**
**Consolidated Balance Sheet**
**As of 30 June 2007**
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | 30 June 2007 | "Restated" 31 December 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank | 6 | 544,725 | 709,012 |
| Financial assets designated at fair value through profit or loss | 7 | 564,648 | 582,110 |
| Receivables from reverse repurchase agreements | 8 | 144 | 120,922 |
| Loans and advances to banks | 9 | 4,577,545 | 3,911,859 |
| Loans and advances to customers | 10 | 19,613,288 | 18,706,855 |
| Investment securities | 12 | 11,101,348 | 10,470,803 |
| Investment in equity participations | 13 | 119,504 | 142,878 |
| Property and equipment | 14 | 838,142 | 750,193 |
| Intangible assets | 14 | 6,367 | 7,668 |
| Deferred tax assets | 20 | 27,206 | 13,949 |
| Other assets | 15 | 3,672,089 | 3,318,080 |
| **Total assets** | | **41,065,006** | **38,734,329** |
| **LIABILITIES AND EQUITY** | | | |
| Deposits from banks | 16 | 320,272 | 599,413 |
| Deposits from customers | 17 | 25,678,067 | 24,468,455 |
| Obligations under repurchase agreements | 8 | 2,315,139 | 1,488,248 |
| Funds borrowed | 18 | 5,719,365 | 5,525,649 |
| Other liabilities and provisions | 19 | 1,917,640 | 1,651,254 |
| Income tax payables | 20 | 68,908 | 89,213 |
| Deferred tax liabilities | 20 | 5,945 | - |
| **Total liabilities** | | **36,025,336** | **33,822,232** |
| Share capital | 21 | 3,300,146 | 3,300,146 |
| Revaluation of available-for-sale financial assets | 21 | 87,568 | 54,049 |
| Share premium | | 724,320 | 724,320 |
| Revaluation surplus | | 15,948 | 18,613 |
| Currency translation adjustment | | 32,745 | 37,144 |
| Retained earnings | 21 | 610,307 | 509,489 |
| **Total equity attributable to equity holders of the Bank** | | **4,771,034** | **4,643,761** |
| **Minority interest** | 21 | **268,636** | **268,336** |
| **Total equity** | | **5,039,670** | **4,912,097** |
| **Total liabilities and equity** | | **41,065,006** | **38,734,329** |
| **Commitments and contingencies** | 26 | **8,421,176** | **8,266,140** |

*The notes on pages 6 to 62 are an integral part of these consolidated interim financial statements.*

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
## Consolidated Statement of Income
## For the Six-Month Period Ended 30 June 2007
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | 30 June 2007 | "Restated" 30 June 2006 |
|---|---|---|---|
| **Interest income** | | | |
| Interest on loans and receivables | | 1,540,759 | 1,147,562 |
| Interest on securities | | 810,329 | 692,789 |
| Interest on deposits with banks | | 189,099 | 101,862 |
| Interest on other money market placements | | 113,446 | 166,768 |
| Other interest income | | 9,574 | 42,182 |
| **Total interest income** | | **2,663,207** | **2,151,163** |
| **Interest expense** | | | |
| Interest on deposits | | (1,593,764) | (1,189,626) |
| Interest on other money market deposits | | (69,830) | (20,486) |
| Interest on funds borrowed | | (132,669) | (130,128) |
| Other interest expense | | (10,840) | (1,506) |
| **Total interest expense** | | **(1,807,103)** | **(1,341,746)** |
| **Net interest income** | | **856,104** | **809,417** |
| Fees and commissions income | | 269,092 | 237,741 |
| Fees and commissions expense | | (115,334) | (91,316) |
| **Net fees and commissions income** | | **153,758** | **146,425** |
| **Other operating income** | | | |
| Trading income, (net) | 7 | 47,589 | 44,190 |
| Foreign exchange gain , (net) | | 68,156 | 31,172 |
| Other income | 23 | 270,210 | 302,182 |
| **Total other operating income** | | **385,955** | **377,544** |
| **Other operating expense** | | | |
| Salaries and employee benefits | 24 | (248,436) | (203,733) |
| Provision for possible loan losses, net of recoveries | 10 | (89,042) | (86,807) |
| Depreciation and amortization | 14 | (42,503) | (33,022) |
| Taxes other than on income | | (17,970) | (16,031) |
| Other expenses | 25 | (402,271) | (367,340) |
| **Total other operating expense** | | **(800,222)** | **(706,933)** |
| **Income from operations** | | **595,595** | **626,453** |
| Income tax provision | 20 | (111,094) | (147,788) |
| **Net income for the period** | | **484,501** | **478,665** |
| **Net income for the period attributable to:** | | | |
| Equity holders of the Bank | | 485,683 | 454,423 |
| Minority interest | 21 | (1,182) | 24,242 |
| Earning per share (full YTL) | | 0.1943 | 0.3553 |

*The notes on pages 6 to 62 are an integral part of these consolidated interim financial statements.*

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**
**Consolidated Statement of Changes in Equity**
**For the Six-Month Period Ended 30 June 2007**
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | Share capital | Revaluation of available-for-sale financial assets | Share premium | Revaluation surplus | Currency translation adjustment | Retained earnings | Minority | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Reported balances at 1 January 2006** | | **2,692,703** | **279,110** | **1,169,756** | **11,387** | **-** | **218,263** | **323,612** | **4,694,831** |
| Correction of the errors | 2 | - | (2,946) | 2,769 | 368 | 30,478 | 22,243 | (80,664) | (27,752) |
| **Restated balances at 1 January 2006** | | **2,692,703** | **276,164** | **1,172,525** | **11,755** | **30,478** | **240,506** | **242,948** | **4,667,079** |
| Increase in revaluation surplus | | - | - | - | 1,897 | - | - | 1,083 | 2,980 |
| Net market value losses from available-for-sale financial assets | 21 | - | (610,956) | - | - | - | - | 42 | (610,914) |
| Currency translation adjustment for foreign operations | | - | - | - | - | 15,832 | - | - | 15,832 |
| Dividends paid | | - | - | - | - | - | (440,351) | - | (440,351) |
| Net income for the period | | - | - | - | - | - | 454,423 | 24,242 | 478,665 |
| **At 30 June 2006** | | **2,692,703** | **(334,792)** | **1,172,525** | **13,652** | **46,310** | **254,578** | **268,315** | **4,113,291** |
| Increase in share capital | | 607,443 | - | (448,205) | - | - | (159,238) | - | - |
| Increase in revaluation surplus | | - | - | - | 4,961 | - | - | 2,834 | 7,795 |
| Net market value gains from available-for-sale financial assets | | - | 388,841 | - | - | - | - | (6,091) | 382,750 |
| Currency translation adjustment for foreign operations | | - | - | - | - | (9,166) | - | - | (9,166) |
| Net income for the period | | - | - | - | - | - | 414,149 | 3,278 | 417,427 |
| **At 31 December 2006** | | **3,300,146** | **54,049** | **724,320** | **18,613** | **37,144** | **509,489** | **268,336** | **4,912,097** |
| | | | | | | | | | |
| **Reported balances at 1 January 2007** | | **3,300,146** | **206,417** | **721,551** | **18,245** | **-** | **403,688** | **348,958** | **4,999,005** |
| Correction of the errors | 2 | - | (152,368) | 2,769 | 368 | 37,144 | 105,801 | (80,622) | (86,908) |
| **Restated balances at 1 January 2007** | | **3,300,146** | **54,049** | **724,320** | **18,613** | **37,144** | **509,489** | **268,336** | **4,912,097** |
| Decrease in revaluation surplus | | - | - | - | (2,665) | - | - | 4,665 | 2,000 |
| Net market value gains from available-for-sale financial assets | 21 | - | 33,519 | - | - | - | - | - | 33,519 |
| Currency translation adjustment for foreign operations | | - | - | - | - | (4,399) | - | - | (4,399) |
| Dividends paid | 21 | - | - | - | - | - | (384,865) | (3,183) | (388,048) |
| Net income for the period | | - | - | - | - | - | 485,683 | (1,182) | 484,501 |
| **At 30 June 2007** | | **3,300,146** | **87,568** | **724,320** | **15,948** | **32,745** | **610,307** | **268,636** | **5,039,670** |

*The notes on pages 6 to 62 are an integral part of these consolidated interim financial statements.*

*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | 30 June 2007 | "Restated" 30 June 2006 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Income before minority interest | | 484,501 | 478,665 |
| Deferred taxation | 20 | (18,324) | 119,074 |
| Provision for loan losses | 10 | 89,042 | 86,807 |
| Depreciation and amortization | 14 | 42,503 | 33,022 |
| Provision for retirement pay liability and unused vacations | 24 | 9,669 | 5,278 |
| Unearned premium reserve | 23 | 49,134 | 16,708 |
| Provision for outstanding claims | 25 | 5,990 | 12,653 |
| Life mathematical provisions | 25 | 22,858 | 18,965 |
| Other provision expenses | 25 | 8,841 | 32,701 |
| **Operating profit before changes in operating assets and liabilities** | | **694,214** | **803,873** |
| **Changes in operating assets and liabilities:** | | | |
| Loans and advances to banks | | (39,498) | (7,598) |
| Reserve deposits | | (97,700) | (127,582) |
| Financial assets designated at fair value through profit or loss | | 17,462 | 315,985 |
| Loans and advances to customers | | (906,433) | (4,540,666) |
| Derivatives | | (24,983) | (96,794) |
| Other assets | | (264,348) | 261,048 |
| Deposits | | (279,141) | (583,071) |
| Other liabilities and provisions | | 2,125,842 | 668,417 |
| Income tax payables | | (20,305) | (337,931) |
| **Cash provided/(used in) by operating activities** | | **510,896** | **(4,448,192)** |
| **Cash flows from investing activities:** | | | |
| Net investment in property and equipment, and intangible assets | | (39,110) | (29,200) |
| Net (increase)/decrease in investment securities | | (630,545) | 571,077 |
| **Cash (used in)/provided by investing activities** | | **(669,655)** | **541,877** |
| **Cash flows from financing activities:** | | | |
| Net increase in funds borrowed | | 193,716 | 1,491,430 |
| Dividends paid | | (388,048) | (440,351) |
| **Cash (used in)/provided by financing activities** | | **(194,332)** | **1,051,079** |
| Net increase/(decrease) in cash and cash equivalents | | 341,123 | (2,051,363) |
| Cash and cash equivalents at the beginning of the period | 6 | 4,695,444 | 6,429,896 |
| **Cash and cash equivalents at the end of the period** | 6 | **5,036,567** | **4,378,533** |
| Interest paid | | (1,787,753) | (1,374,025) |
| Interest received | | 2,668,013 | 1,951,140 |
| Income taxes paid | | 149,723 | 264,430 |

*The notes on pages 6 to 62 are an integral part of these consolidated interim financial statements.*

## Notes to the consolidated interim financial statements

## 1. Overview of the Bank

### (a) Brief History

The Bank was established under the authorization of special law numbered 6219, called "the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to The General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by granting securities and real estates against,
- Establishing or participating in all kinds of insurance corporations already established,
- Trading real estates,
- Servicing all banking operations and services,
- Operating real estates and participating in industrial sectors for corporations handed over by foundations and General Directorate of the Foundations in line with conditions stipulated by agreements if signed.
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 428 domestic branches and 2 foreign branches in New York and Bahrain. In addition to its branches, the Bank has two banks each of which is located in Austria and Turkish Republic of Northern Cyprus. The Bank has 7.828 employees. The Bank's head office is located at Atatürk Bulvarı No:207, Kavaklıdere - Ankara.

### (b) Ownership

The shareholder having direct or indirect control over the shares of the Bank is The General Directorate of the Foundations.

The shares of the Bank having nominal value of YTL 322,000,000, representing the 25.18% of the Bank's outstanding shares, was publicly offered at a price between YTL 5.13-5.40 for each share having a nominal value of YTL 1 on November 2005, and YTL 1,172,347 was recorded as "Share Premiums" in shareholders' equity.

## Overview of the Bank *(continued)*

On 19 December 2006 the Bank's paid-in share capital increased from YTL 1,279,000 to YTL 2,500,000 by YTL 1,221,000 through YTL 605,763 from other capital reserves, YTL 448,205 from share issuance premium, YTL 154,500 from extraordinary reserves, YTL 7,795 from revaluation fund, and YTL 4,737 from other profit reserves. The Bank's paid-in capital is divided into 2.500.000.000 shares with each has a nominal value of 1 New Turkish Lira.

| Shareholders | Number of Shares | Nominal Value of the Shares – Thousands of YTL | Share Percentage (%) |
|---|---|---|---|
| The General Directorate of the Foundations (Group A) | 1.075.058.640 | 1,075,059 | 43.00 |
| The General Directorate of the Foundations (Group B) | 386.224.345 | 386,224 | 15.45 |
| Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C) | 402.552.664 | 402,553 | 16.10 |
| Foundations (Group B) | 4.706.069 | 4,706 | 0.19 |
| Individuals and legal entities (Group B) | 2.060.313 | 2,060 | 0.08 |
| Publicly traded (Group D) | 629.397.969 | 629,398 | 25.18 |
| **Total** | **2.500.000.000** | **2,500,000** | **100.00** |

In the current period, the shareholders' structure has not been changed.

## 2. Basis of preparation

### (a) Statement of compliance

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in New Turkish Lira ("YTL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Insurance Law, the Turkish Commercial Code; and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in US Dollar and in EUR in accordance with the regulations of the countries in which they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS") IAS 34 – *Interim Financial Reporting*.

During the period the Group adopted the IFRS7 – *Financial Instruments: Disclosures*, which increased the level of disclosures in respect of enabling users of the consolidated financial statements to evaluate the significance of financial instruments to the Group's financial position and performance, the nature and extent of risks arising from financial instruments to which the Group is exposed, and how the Group manages those risks. The Group has provided full comparative information.

The errors made in the reported consolidated financial statement in prior periods are corrected in accordance with IAS 8 – *Accounting policies, changes in accounting estimates and errors* and corrections made to the previous periods' consolidated financial statements are summarized below.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Basis of preparation *(continued)*

### Statement of compliance *(continued)*

| | Revaluation of available for sale financial assets | Share premium | Revaluation surplus | Currency translation adjustment | Retained earnings | Minority | Total equity |
|---|---|---|---|---|---|---|---|
| ***Reported Balances at 31 December 2005*** | **279,110** | **1,169,756** | **11,387** | **-** | **218,263** | **323,612** | **4,694,831** |
| to book impairment on equity participations | - | - | - | - | (184,950) | (32,843) | (217,793) |
| reversal of general loan losses provision | - | - | - | - | 87,062 | - | 87,062 |
| to correct of consolidation eliminations | 4,631 | 2,769 | 368 | - | 74,476 | - | 82,244 |
| to correct depreciation of property and equipment | - | - | - | - | 24,206 | - | 24,206 |
| to correct deferred taxation on investments | (7,577) | - | - | - | (10,000) | - | (17,577) |
| to eliminate extinguished liabilities | - | - | - | - | 12,990 | 2,307 | 15,297 |
| adjustments in accordance with IFRS 4 related to insurance contracts | - | - | - | - | (897) | (294) | (1,191) |
| minority correction | - | - | - | - | 49,834 | (49,834) | - |
| to book currency translation adjustment | - | - | - | 30,478 | (30,478) | - | - |
| ***Restated Balances at 31 December 2005*** | **276,164** | **1,172,525** | **11,755** | **30,478** | **240,506** | **242,948** | **4,667,079** |

| | Revaluation of available for sale financial assets | Share premium | Revaluation surplus | Currency translation adjustment | Retained earnings | Net profit for the year | Minority | Total equity |
|---|---|---|---|---|---|---|---|---|
| ***Reported Balances at 31 December 2006*** | **206,417** | **721,551** | **18,245** | **-** | **(362,823)** | **766,511** | **348,958** | **4,999,005** |
| to book impairment on equity participations | - | - | - | - | (184,950) | - | (32,843) | (217,793) |
| reversal of general loan losses provision | - | - | - | - | 87,062 | 43,401 | - | 130,463 |
| to correct depreciation of property and equipment | - | - | - | - | 24,206 | (8,220) | - | 15,986 |
| to eliminate extinguished liabilities | - | - | - | - | 12,990 | (219) | 2,268 | 15,039 |
| to correct of consolidation eliminations | (144,875) | 2,769 | 368 | - | 45,973 | 83,719 | - | (12,046) |
| correction of deferred tax assets | - | - | - | - | - | (10,200) | - | (10,200) |
| to correct valuation of equity participations | (7,493) | - | - | - | - | - | - | (7,493) |
| adjustments in accordance with IFRS 4 related to insurance contracts | - | - | - | - | (897) | 246 | (213) | (864) |
| minority correction | - | - | - | - | 49,834 | - | (49,834) | - |
| to book currency translation adjustment | - | - | - | 37,144 | (30,478) | (6,666) | - | - |
| ***Restated Balances at 31 December 2006*** | **54,049** | **724,320** | **18,613** | **37,144** | **(359,083)** | **868,572** | **268,336** | **4,912,097** |

| | Revaluation of available for sale financial assets | Share premium | Revaluation surplus | Currency translation adjustment | Retained earnings | Net profit for the period | Minority | Total equity |
|---|---|---|---|---|---|---|---|---|
| ***Reported Balances at 30 June 2006*** | **(357,731)** | **1,169,756** | **13,284** | **-** | **(200,136)** | **541,297** | **348,732** | **4,207,905** |
| to book impairment on equity participations | - | - | - | - | (184,950) | - | (32,843) | (217,793) |
| reversal of general loan losses provision | - | - | - | - | 87,062 | 18,893 | - | 105,955 |
| to correct of consolidation eliminations | 24,053 | 2,769 | 368 | - | 52,524 | (82,453) | - | (2,739) |
| to eliminate extinguished liabilities | - | - | - | - | 12,990 | 1,574 | 2,586 | 17,150 |
| to correct depreciation of property and equipment | - | - | - | - | 24,206 | (11,087) | - | 13,119 |
| to correct deferred taxation on investments | (1,114) | - | - | - | (10,000) | 2,128 | - | (8,986) |
| adjustments in accordance with IFRS 4 related to insurance contracts | - | - | - | - | (897) | (97) | (326) | (1,320) |
| minority correction | - | - | - | - | 49,834 | - | (49,834) | - |
| to book currency translation adjustment | - | - | - | 46,310 | (30,478) | (15,832) | - | - |
| ***Restated Balances at 30 June 2006*** | **(334,792)** | **1,172,525** | **13,652** | **46,310** | **(199,845)** | **454,423** | **268,315** | **4,113,291** |

In addition to the corrections shown on the tables above, the Group also has changed the presentation of its consolidated financial statements and disclosure to these consolidated financial statements and made some reclassification on them to make it more meaningful for the readers.

The accompanying consolidated financial statements are authorized for issue by the directors on 17 August 2007.

## Basis of preparation *(continued)*

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, financial assets and liabilities held for trading, available-for-sale financial assets and tangible assets held for sale.

### (c) Functional currency and presentation currency

These financial statements are presented in YTL, which is the Bank's functional currency.

### (d) Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. 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 that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). This, together with the sustained positive trend in quantitative factors, such as the stabilization in financial and monetary markets, decrease in interest rates and the appreciation of YTL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

### (e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 20 – Income taxes
- Note 19 – Other payables and provisions including insurance contract liabilities

# 3. Significant accounting policies

## (a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

*Affiliates*

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*Associates*

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

*Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group.

*Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## Significant accounting policies *(continued)*

### (b) Foreign currency

*Foreign currency transactions*

Transactions are recorded in YTL, which represents the Group's functional currency except for Word Vakıf Offshore Banking Ltd. and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into YTL at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of income as foreign exchange gain or loss.

*Foreign operations*

The functional currencies of the foreign subsidiaries, Word Vakıf Offshore Banking Ltd. and Vakıfbank International AG, are US Dollar and EUR, respectively, and their financial statements are translated to the presentation currency, YTL, for the consolidation purposes, as summarized in the following paragraph.

The assets and liabilities of the foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to YTL using average exchange rates. On consolidation exchange differences arising from the translation of the net investment in foreign subsidiaries are included in equity as currency translation adjustment until the disposal of such subsidiaries.

### (c) Interest income and expense

Interest income and expense are recognized in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of income include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis
- interest on available-for-sale investment securities on an effective interest basis

## Significant accounting policies *(continued)*

### (d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

### (e) Net trading income

Net trading income includes gains and losses arising from disposals of financial assets designated at fair value through profit or loss, available-for-sale financial assets and gains and losses on trading purpose derivative transactions.

### (f) Dividends

Dividend income is recognized when the right to receive income is established.

### (g) Lease payments made

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

## Significant accounting policies *(continued)*

### (h) Income taxes

#### Corporate tax

In accordance with Article No. 32 of the new Corporate Tax Law no.5520 published in the Official Gazette no.26205 dated 21 June 2006, the corporate tax rate is reduced from 30% to 20%. Accordingly, effective from 1 January 2006, statutory income is subject to corporate tax at 20%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. The corporation tax rate applied for the year 2005 was 30%. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased to 15% from 10%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of 25th of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The corporate tax rate for offshore subsidiary in Turkish Republic of Northern Cyprus is 2%. And the offshore subsidiary of the Group is exempt from stamp duty.

The applicable tax rate for current and deferred tax for the Group’s consolidated affiliate in Austria is 25%. The prepaid taxes at the end of the each quarter are calculated and paid at the rates valid for the earnings of the related years. The payments can be deducted from the annual corporate tax calculated for the whole year earnings. In accordance with the Double Tax Treaty Agreement signed between Turkey and Austria, Turkish companies in Austria have the right to utilize from 10% tax deduction. The Group’s consolidated affiliate in Austria realized this special condition in 2006, and utilized from 10% tax deduction for the previous years that it has paid, amounting to EUR 1,750,579 and recorded gain amounting to YTL 3,167 on its financial statements in the year 2006.

## Significant accounting policies *(continued)*

### Income taxes *(continued)*

**Deferred taxes**

According to the IAS 12 - *Income Taxes*; deferred tax assets and liabilities are recognized, using the balance sheet method, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

If transactions and events are recorded in the statement of income, then the related tax effects are also recognized in the statement of income. However, if transactions and events are recorded directly in the shareholders' equity, the related tax effects are also recognized directly in the shareholders' equity.

### (i) Financial instruments

*Classification*

*Financial instruments at fair value through profit or loss* are trading financial assets acquired principally for the purpose of selling within a short period for the purpose of short-term profit making, derivative financial instruments, and the financial assets those are designated as at fair value through profit or loss by the Group. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets designated at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities under other liabilities and provisions.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its subsidiaries provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise due from banks and loans and advances to customers.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt investment.

*Available-for-sale financial assets* are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

*Recognition*

Financial assets designated at fair value through profit or loss and available-for-sale financial assets are recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized. Held-to-maturity instruments, loans and receivables, and deposits are recognized on the day they are originated.

## Significant accounting policies *(continued)*

### Financial instruments *(continued)*

*Measurement*

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all financial assets designated at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

*Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

*Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of financial instruments are recognized in the statement of income as interest on securities or trading income in accordance with the type of the financial assets.

Gains and losses arising from a change in the fair value of available-for-sale securities are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the statement of income. Interest earned whilst holding available-for-sale financial assets and held-to-maturity securities is reported as interest income.

*Derecognition*

A financial asset is derecognised when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale financial assets and financial assets designated at fir value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity assets and loans and receivables are derecognized on the day they are transferred by the Group.

## Significant accounting policies *(continued)*

### Financial instruments *(continued)*

*Specific instruments*

*Cash and balances with Central Banks:* Cash and balances with Central Banks comprise cash balances on hand, cash deposited with Central Banks and other cash items. Money market placements are classified in loans and advances to banks.

*Investments:* Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

*Loans and advances to banks and customers:* Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

*Minimum lease receivables:* Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Minimum lease receivables are included in loans and receivables.

*Identification and measurement of impairments*

At each balance sheet date the Group assesses whether there is objective evidence that financial asset or group of financial assets is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these banking loans and receivable to their recoverable amounts. In assessing the recoverable amounts of banking loans and receivables, the estimated future cash flows are discounted to their present value. Increases in the allowance account are recognized in profit or loss. When a banking loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through profit or loss.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Where an asset remeasured to fair value is impaired, the write-down is recognized in profit or loss.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Significant accounting policies *(continued)*

### (j) Property and equipment

The cost of the tangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The tangible assets purchased after this date are recorded at their historical costs. The inflation adjustment of tangible assets that is subject to correction for the first time until 31 December 2005 has been calculated on the basis of cost obtained by deducting foreign exchange differences, financing expenses and revaluation increases, if any, from the historical cost. Tangible assets obtained after 31 December 2005 have been recorded at the cost derived after the deduction of foreign exchange differences, financing expenses and revaluation increases, if any.

Gains/losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sales price.

Maintenance and repair costs incurred for tangible assets are recorded as expense.

There are no restrictions such as pledges, mortgages or any other restriction on tangible assets.

Depreciation rates and estimated useful lives are:

| Tangible assets | Estimated useful lives (years) | Depreciation Rates (%) |
|---|---|---|
| Buildings | 50 | 2 |
| Office equipment, furniture and fixture, and motor vehicles | 5-10 | 10-20 |
| Assets obtained through finance leases | 8 | 12.5 |

The Group firms assess as of each reporting date whether there is any indicator in respect of impairment on the assets. If there is an objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 - *Impairment of Assets* and if the recoverable amount is less then the carrying value of the related asset, a provision for impairment loss is made.

### (k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. The Group holds some investment property as a consequence of the ongoing rationalization of its real estate company and insurance companies, consolidated in the accompanying consolidated financial statements.

Investment property is measured initially at cost including transaction costs.

Subsequent to initial recognition, the Group measured all investment property based on the cost model in accordance with the cost model for property and equipment (i.e. at cost less accumulated depreciation and less any accumulated impairment losses).

## Significant accounting policies *(continued)*

### (l) Intangible assets

The Group's intangible assets consist of software and rights.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on the declining balance which is one of the accelerated amortization methods.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 - *Impairment of Assets* and if the recoverable amount is less then the carrying value of the related asset, a provision for impairment loss is made.

### (m) Repurchase transactions

The Group enters into purchases/(sales) of investments under agreements to resell/(repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in "Interest Income" or "Interest Expense".

### (n) Securitizations

Group securitises its diversified payment rights. In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity:

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's consolidated balance sheet.

When the Group has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognized in the Group's consolidated balance sheet.

### (o) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not the assets of the Group.

## Significant accounting policies *(continued)*

### (p) Employee benefits

*Pension and other post-retirement obligations*

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı (“the Fund”), is a separate legal entity and a foundation recognized by an official decree, providing pension plan benefits to all qualified Bank employees. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to the fixed contributions.

As per the temporary Article no.23 of the Turkish Banking Law no.5411 (the Law) as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to the Social Security Foundation (SSF) within a period of three years. As per this new Law, a commission established by the representatives from various organizations will calculate the commitment for each fund based on the actuarial calculations made taking into account the revenues and expenses of the funds. The commitment to be calculated will be paid maximum in 15 years in equal instalments. Subsequently, the commission established under the coordination of the Ministry of Labour and Social Security completed working on the methodology and parameters to be used for the calculation of such commitments and the related Decree was approved by the Board of Ministries on 30 November 2006 and published in the Official Gazette no. 26377 dated 15 December 2006.

However, on 2 November 2005 the President had applied to the Constitutional Court for annulment of certain statements of the related Article of the Turkish Banking Law no.5411 related with the transfer of funds to SSF. By the decision of the Constitutional Court no.E.2005/39, K.2007/33 dated 22 March 2007 as published in the Official Gazette no.26479 dated 31 March 2007, the related Article was annulled and its execution was aborted as of the publication date of this decision. Following this decision, BRSA expressed its opinion that the cancellation of the transfer of such funds to the SSF will not have any impact on the measurement principles of the existing liabilities of the banks in the subsequent periods. The detailed verdict of the Constitutional Court has not been issued as at the date of this report. The Bank management, in line with BRSA’s opinion, does not expect the verdict of the Constitutional Court to have any impact on the measurement principles of the existing liabilities of the banks in the subsequent periods. The Bank management will review its policy on this matter subsequent to the announcement of the detailed decision by the Constitutional Court.

As per the actuarial calculation made on the technical financial statements of the Fund as of 31 December 2006 in compliance with the Decree published on 15 December 2006, there is no technical or actual deficit that required to be provided against. Furthermore, the Bank management believes that the Fund is capable of meeting its liabilities to be calculated by the commission mentioned above during the transfer of the Fund without any burden to the Bank.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Significant accounting policies *(continued)*

### Enmployee benefits *(continued)*

*Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are YTL 1.960 and YTL 1.857 at 30 June 2007 and 31 December 2006, respectively.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 30 June 2007 and 31 December 2006 are as follows:

| | 30 June 2007<br>% | 31 December 2006<br>% |
|---|---|---|
| Discount rate | 5.71 | 5.49 |
| Expected rate of salary/limit increase | 5.00 | 6.175 |
| Turnover rate to estimate the probability of retirement | 0.51 | 0.51 |

The above rate for salary/limit increase was determined based on the government's future targets for annual inflation.

### (q) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### (r) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

## Significant accounting policies *(continued)*

### (s) Financial guarantee contracts

Financial guarantees are contracts that require the Bank and its affiliates to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

### (t) Insurance contracts

Through its insurance subsidiaries, the Group issues contracts to customers that contain insurance risk. A contract, under which the Group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

Insurance contracts are accounted for as follows:

*Premiums written:* Premiums written represents premiums on policies written during the period, net of premiums from cancelled policies in prior periods, taxes and premium ceded to reinsurer firms. Premiums written are presented under other operating income in the consolidated statement of income.

*Unearned premium reserves:* Unearned premium reserves in the consolidated financial statements represents net premiums written from all in-force policies for non-life insurance branches and accrued premiums for annual life insurance policies and insurance policies over one year with saving premiums, net of saving portion, if any, computed on daily pro-rata basis.

*Claims and provision for outstanding claims:* Claims are recorded in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is made for outstanding claims, including claim settlements reported at the year-end. Incurred but not reported claims ("IBNR") are also provided for under claim provisions.

*Life mathematical provisions:* Life mathematical provisions consist of actuarial mathematical provisions (commitment of a fixed income to the insurance holder) and the profit share provisions and represents the liability of the Group to the policyholders in the life insurance branch.

Life mathematical provision represents the provision for future guaranteed policy benefits provided by the insurance companies operating in life insurance business. The life mathematical provision is computed by deducting administrative expenses, mortality risk premium and commissions from premiums collected from saving life insurance policies signed by the Group.

*Life profit share reserve:* Life profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis.

## Significant accounting policies *(continued)*

### Insurance contracts *(continued)*

*Deferred acquisition cost:* Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs ("DAC") are amortized on a straight-line basis over the life of the contract.

*Liability adequacy test:* At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities are used. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision.

The Group performed liability adequacy test as of and for the six-month period ended 30 June 2007 and 30 June 2006 and for the year ended 31 December 2006, and concluded that the liabilities provided are aduquate.

### (u) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of income are determined by dividing the net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

### (v) Subsequent events

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

### (w) Segment reporting

A segment is a distinguishable component of the Bank and its affiliates that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## Significant accounting policies *(continued)*

### (x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 30 June 2007, and have not been applied in preparing these consolidated financial statements:

- *IFRS 8 Operating Segments* supersedes IAS 14 Segment Reporting. IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 wiil be effective for annual financial statements for periods beginning on or after 1 January 2009, is not expected to have impact on the disclosures of the Group.
- *IFRIC 12 Service Concession Arrangements* draws a distinction between two types of service concession arrangement. In one, the operator receives a financial asset, specifically an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset. In the other, the operator receives an intangible asset – a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. IFRIC 12 allows for the possibility that both types of arrangement may exist within a single contract: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset. IFRIC 12, effective for annual periods beginning on or after 1 January 2008, is not expected to have any impact on the consolidated financial statements.
- *IFRIC 13 Customer Loyalty Programmes* addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. IFRIC 13, effective for annual periods beginning on or after 1 January 2008, is not expected to have any material impact on the consolidated financial statements.
- *IFRIC 14 - IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;* under IFRIC 14 entities are required to measure any economic benefits available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. IFRIC 14, effective for annual periods beginning on or after 1 January 2008, is not expected to have any impact on the consolidated financial statements.

# 4. Financial risk management

## (a) Introduction and overview

This note presents information about the Group's exposure to each of the below risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

*Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the auditing committee. Consequently, the Risk Management Department, which carries out the risk management activities and works independently from executive activities, report directly to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 to 31 of the Banking Law No. 5411 and the Articles 36 to 42 of Regulation on Internal Systems within the Banks, dated 1 November 2006, the Bank revised the current written policies and implementation procedures regarding management of each risk encountered in its activities in February 2007.

*Auditing Committee:* The Auditing Committee consists of two members of the Board of Directors who do not have any executive functions. The Auditing Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### (b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

*Management of credit risk*

For credit risk management purposes Risk Management Department operates in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type.
- the contribution to the formation of rating and scoring systems.
- the submiting to the Board of Directors and the senior management of not only credit risk management reports about credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration but also scenario analysis reports, stress tests and other analyses
- the studies regarding the formation of advanced credit risk measurement approaches.

*Exposure to credit risk*

| | **Loans and advances to customers** | | **Other assets** | |
|---|---|---|---|---|
| | **30 June 2007** | **31 December 2006** | **30 June 2007** | **31 December 2006** |
| Individually impaired | 1,182,046 | 1,099,592 | 11,382 | 8,201 |
| Allowance for impairment | (1,181,870) | (1,099,376) | (9,822) | (6,878) |
| **Carrying amount** | **176** | **216** | **1,560** | **1,323** |
| Collectively impaired | - | - | - | - |
| Allowance for impairment | - | - | - | - |
| **Carrying amount** | | | | |
| Past due but not impaired | 785,721 | 630,046 | - | - |
| **Carrying amount** | **785,721** | **630,046** | | |
| Neither past due nor impaired | 18,582,054 | 17,804,710 | - | - |
| Loans with renegotiated terms | 245,337 | 271,883 | - | - |
| **Carrying amount** | **18,827,391** | **18,076,593** | **-** | **-** |
| **Total carrying amount** | **19,613,288** | **18,706,855** | **1,560** | **1,323** |

As of 30 June 2007 or 31 December 2006, the Group has no allowance for loans and advances to banks and investment securities.

## Financial risk management *(continued)*

### Credit risk *(continued)*

*Impaired loans and receivables*

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 6 to 8 in the Group's internal credit risk grading system.

*Past due but not impaired loans*

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

*Allowances for impairment*

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

*Write-off policy*

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Credit risk *(continued)*

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

| | Loans and advances to customers | | Other assets | |
|---|---|---|---|---|
| **30 June 2007** | **Gross** | **Net** | **Gross (*)** | **Net (*)** |
| Grade 6 : Individually Impaired | 333,100 | - | - | - |
| Grade 7 : Individually Impaired | 30,890 | 176 | - | - |
| Grade 8 : Individually Impaired | 818,056 | - | 11,382 | 1,560 |
| **Total** | **1,182,046** | **176** | **11,382** | **1,560** |

| | Loans and advances to customers | | Other assets | |
|---|---|---|---|---|
| **31 December 2006** | **Gross** | **Net** | **Gross (*)** | **Net (*)** |
| Grade 6 : Individually Impaired | 19,943 | - | - | - |
| Grade 7 : Individually Impaired | 32,450 | 216 | - | - |
| Grade 8 : Individually Impaired | 870,199 | - | 8,201 | 1,323 |
| **Total** | **1,099,592** | **216** | **8,201** | **1,323** |

(*) Impairmed insurance receivables consist of non-rated customers.

*Collateral policy*

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2007 or 31 December 2006.

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

| **Cash loans** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Secured loans: | 16,078,992 | 15,436,701 |
| Secured by cash collateral | 1,117 | 1,479 |
| Secured by mortgages | 6,087,987 | 5,980,877 |
| Secured by government institutions or government securities | - | 47 |
| Guarantees issued by financial institutions | 112,790 | 111,234 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 9,877,098 | 9,343,064 |
| Unsecured loans | 3,534,120 | 3,269,938 |
| **Total performing loans and finance lease receivables** | **19,613,112** | **18,706,639** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Credit risk *(continued)*

| **Non-cash loans** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Secured loans: | 2,669,665 | 2,650,994 |
| Secured by mortgages | 993,099 | 1,075,729 |
| Guarantees issued by financial institutions | 179,823 | 208,124 |
| Secured by cash collateral | 100,640 | 80,506 |
| Secured by government institutions or government securities | - | - |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 1,396,103 | 1,286,635 |
| Unsecured loans | 2,319,796 | 2,142,634 |
| **Total non-cash loans** | **4,989,461** | **4,793,628** |

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Cash collateral | 324,131 | 358,188 |
| Unsecured | 141,085 | 112,306 |
| Promissory notes | 5,102 | 2,416 |
| **Total** | **470,318** | **472,910** |

*Sectoral and geographical concentration of impaired loans*

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans and lease receivables is shown below:

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Construction | 161,908 | 111,839 |
| Food | 151,827 | 133,901 |
| Textile | 150,688 | 145,875 |
| Service sector | 102,471 | 83,329 |
| Durable consumption | 101,623 | 90,146 |
| Metal and metal products | 30,267 | 7,252 |
| Consumer loans | 14,807 | 13,566 |
| Agriculture and stockbreeding | 8,624 | 10,878 |
| Financial institutions | 756 | 806 |
| Other | 459,075 | 502,000 |
| **Total non-performing loans and lease receivables** | **1,182,046** | **1,099,592** |

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Turkey | 1,182,032 | 1,099,568 |
| Austria | 14 | 24 |
| **Total non-performing loans and lease receivables** | **1,182,046** | **1,099,592** |

## Financial risk management *(continued)*

### (c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

*Management of liquidity risk*

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

*Exposure to liquidity risk*

The calculation method used to measure the banks compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007. Before this date, there is a temporary weekly reporting to BRSA on the ratio of liquid assets to total deposits, loans and advances from central bank, banks and other institutions except for subordinated debts. The weekly average of this ratio is required to be 5% at minimum.

The Bank's banking affiliate in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, rather monitors the banks' overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in the Austria.

The Bank's banking affiliate in Turkish Republic of Northern Cyprus is subject to three levels of liquidity requirement since 2004; instant liquidity of minimum 15%, current liquidity of minimum 50% and long-term liquidity of maximum 120%. The affiliate complies with the local legislation.

*(Currency – Thousands of New Turkish Lira (YTL))*

# Financial risk management *(continued)*

## Liquidity risk *(continued)*

*Residual contractual maturities of financial liabilities*

| 30 June 2007 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 320,272 | 323,281 | 593 | 250,077 | 72,611 | - | - | - |
| Deposits from customers | 25,678,067 | 25,983,811 | 3,434,504 | 4,225,501 | 15,086,856 | 2,453,689 | 783,261 | - |
| Obligations under repurchase agreements | 2,315,139 | 2,711,707 | 13,953 | 338,934 | 131,496 | 960,880 | 1,203,521 | 62,923 |
| Funds borrowed | 5,719,365 | 6,360,111 | 255 | 1,071,315 | 187,600 | 1,679,673 | 2,159,698 | 1,261,570 |
| Other liabilities and provisions | 1,491,836 | 1,491,836 | 25,397 | 192,424 | 115,197 | 82,472 | 601,942 | 474,404 |
| Income taxes payable | 68,908 | 68,908 | - | - | 68,908 | - | - | - |
| **Total** | **35,593,587** | **36,939,654** | **3,474,702** | **6,078,251** | **15,662,668** | **5,176,714** | **4,748,422** | **1,798,897** |

| 31 December 2006 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 599,413 | 600,751 | 3,129 | 463,853 | 133,769 | - | - | - |
| Deposits from customers | 24,468,455 | 24,732,588 | 4,338,000 | 3,225,188 | 13,581,171 | 2,721,712 | 866,517 | - |
| Obligations under repurchase agreements | 1,488,248 | 1,561,265 | - | 260,098 | 259,194 | 731,894 | 310,079 | - |
| Funds borrowed | 5,525,649 | 6,098,235 | 32,069 | 192,886 | 257,036 | 2,353,573 | 3,262,671 | - |
| Other liabilities and provisions | 1,295,773 | 1,295,773 | 14,055 | 357,156 | 84,049 | 75,721 | 387,376 | 377,416 |
| Income taxes payable | 89,213 | 89,213 | - | - | 89,213 | - | - | - |
| **Total** | **33,466,751** | **34,377,825** | **4,387,253** | **4,499,181** | **14,404,432** | **5,882,900** | **4,826,643** | **377,416** |

The previous table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

## (d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

*Management of market risk*

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Market risk *(continued)*

*Exposure to market risk – trading portfolios*

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

Value at Risk (VaR) is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical simulation and Monte Carlo simulation.

The consolidated value at market risks as of 30 June 2007 and 31 December 2006 calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.26333 dated 1 November 2006, are as follows:

| | **30 June 2007** | | | **31 December 2006** | | |
|---|---|---|---|---|---|---|
| | **Average** | **Highest** | **Lowest** | **Average** | **Highest** | **Lowest** |
| Interest rates risk | 16,999 | 22,720 | 9,678 | 86,059 | 113,500 | 10,387 |
| Common share risk | 564 | 484 | 643 | 2,373 | 2,956 | 480 |
| Currency risk | 11,722 | 10,218 | 13,225 | 18,267 | 24,996 | 17,389 |
| Option risk | - | - | - | - | - | - |
| **Total value at risk (12.5 times)** | **356,056** | **417,775** | **294,336** | **1,333,734** | **1,768,150** | **353,200** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Market risk *(continued)*

*Exposure to interest rate risk – non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

| 30 June 2007 | Less than one month | 1-3 months | 3-6 months | 6 months to 1 year | Over 1 year | Non-Interest | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 260,844 | - | - | - | - | 283,881 | 544,725 |
| Loans and advances to banks | 4,338,861 | 276 | 45 | 23 | - | 238,340 | 4,577,545 |
| Loans and advances to customers | 6,844,114 | 3,870,923 | 3,777,721 | 720,135 | 4,388,671 | 11,724 | 19,613,288 |
| Investment securities | 1,455,638 | 2,683,831 | 1,484,265 | 949,638 | 4,525,997 | 1,979 | 11,101,348 |
| Other assets | 2,335,816 | 99,170 | 7,083 | 19,736 | 307,592 | 844,873 | 3,614,270 |
| **Total assets** | **15,235,273** | **6,654,200** | **5,269,114** | **1,689,532** | **9,222,260** | **1,380,797** | **39,451,176** |
| Deposits from banks | 247,118 | 72,561 | - | - | - | 593 | 320,272 |
| Deposits from customers | 14,048,064 | 5,826,209 | 1,351,718 | 279,697 | 737,875 | 3,434,504 | 25,678,067 |
| Obligations under repurchase agreements | 332,153 | 130,111 | 230,733 | 547,764 | 1,060,425 | 13,953 | 2,315,139 |
| Funds borrowed | 1,096,003 | 230,646 | 840,680 | 103,761 | 3,446,886 | 1,389 | 5,719,365 |
| Other liabilities and provisions | 16,193 | 85,813 | 76,189 | 2,422 | 17,099 | 1,294,120 | 1,491,836 |
| Income tax payables | - | - | - | - | - | 68,908 | 68,908 |
| **Total liabilities** | **15,739,531** | **6,345,340** | **2,499,320** | **933,644** | **5,262,285** | **4,813,467** | **35,593,587** |
| **Net** | **(504,258)** | **308,860** | **2,769,794** | **755,888** | **3,959,975** | **(3,432,670)** | **3,857,589** |

| 31 December 2006 | Less than one month | 1-3 months | 3-6 months | 6 months to 1 year | Over 1 year | Non-Interest | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 295,924 | - | - | - | - | 413,088 | 709,012 |
| Loans and advances to banks | 3,718,667 | 2,500 | 330 | 228 | - | 190,134 | 3,911,859 |
| Loans and advances to customers | 9,170,992 | 3,695,108 | 1,388,359 | 620,597 | 3,759,712 | 72,087 | 18,706,855 |
| Investment securities | 1,632,064 | 2,903,344 | 3,062,808 | 1,055,598 | 1,814,993 | 1,996 | 10,470,803 |
| Other assets | 2,120,486 | 1,201 | 1,840 | 59,376 | 17,594 | 813,811 | 3,014,308 |
| **Total assets** | **16,938,133** | **6,602,153** | **4,453,337** | **1,735,799** | **5,592,299** | **1,491,116** | **36,812,837** |
| Deposits from banks | 464,980 | 131,304 | - | - | - | 3,129 | 599,413 |
| Deposits from customers | 3,252,801 | 13,452,868 | 2,248,610 | 362,883 | 813,293 | 4,338,000 | 24,468,455 |
| Obligations under repurchase agreements | 262,704 | 258,429 | 381,785 | 317,226 | 268,104 | - | 1,488,248 |
| Funds borrowed | 1,236,704 | 2,603,104 | 1,220,711 | 112,993 | 323,813 | 28,324 | 5,525,649 |
| Other liabilities and provisions | 34,361 | 7,469 | 9,201 | 18,134 | 70,046 | 1,156,562 | 1,295,773 |
| Income tax payables | - | - | - | - | - | 89,213 | 89,213 |
| **Total liabilities** | **5,251,550** | **16,453,174** | **3,860,307** | **811,236** | **1,475,256** | **5,615,228** | **33,466,751** |
| **Net** | **11,686,583** | **(9,851,021)** | **593,030** | **924,563** | **4,117,043** | **(4,124,112)** | **3,346,086** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Market risk *(continued)*

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the second quarter of 2007 and the year of 2006:

| 30 June 2007 | US Dollar % | EUR % | YTL % | Other currencies % |
|---|---|---|---|---|
| Cash and balances with Central Bank | 2.53 | 1.97 | 12.93 | - |
| Loans and advances to banks | 4.13-5.56 | 3.85-4.23 | 16.00-21.00 | 1.46 |
| Loans and advances to customers | 7.00-7.21 | 5.81-7.00 | 16.77-23.14 | 1.50 |
| Investment securities | 4.49-8.32 | 4.14-6.28 | 19.00-21.00 | - |
| Deposits from banks | 5.30-5.40 | 4.23 | 21.11 | - |
| Deposits from customers | 3.78-4.75 | 3.02-3.64 | 13.00-17.00 | 1.50 |
| Obligations under repurchase agreements | 5.28-5.55 | 4.11 | 18.75 | 1.89 |
| Funds borrowed | 5.55-6.86 | 4.13-7.72 | 13.00-18.00 | - |

| 31 December 2006 | US Dollar % | EUR % | YTL % | Other currencies % |
|---|---|---|---|---|
| Cash and balances with Central Bank | 2.52 | 1.73 | 13.12 | - |
| Loans and advances to banks | 4.18-5.26 | 3.10-3.86 | 15.00-20.27 | - |
| Loans and advances to customers | 7.00-7.59 | 5.44-7.04 | 20.59-32.25 | 1.50 |
| Investment securities | 3.86-6.56 | 5.80-10.62 | 16.47-21.03 | - |
| Deposits from banks | 5.34-5.50 | - | 21.05 | - |
| Deposits from customers | 3.68-4.93 | 2.87-3.60 | 13.00-17.00 | 2.00 |
| Obligations under repurchase agreements | 5.46-5.75 | 3.70 | 11.65 | - |
| Funds borrowed | 13.00-15.22 | 3.43-5.00 | 3.43-5.00 | 1.89 |

The sensivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for six-month based on the floating rate non-trading financial assets and financial liabilities held at 30 June 2007. The sensivity of equity is calculated by revaluing available for sale financial assets at 30 June 2007 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2006. The following tables also include the sensivity of trading portfolio of the Group.

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| **30 June 2007** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets designated at fair value through profit or loss | (19,724) | 22,463 | (19,724) | 22,463 |
| Available for sale financial assets | - | - | (174,512) | 190,821 |
| Floating rate financial assets | 130,673 | (130,673) | 130,673 | (130,673) |
| Floating rate financial liabilities | (50,963) | 50,963 | (50,963) | 50,963 |
| **Total, net** | **59,986** | **(57,247)** | **(114,526)** | **133,574** |

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| **31 December 2006** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets designated at fair value through profit or loss | (22,639) | 25,713 | (22,639) | 25,713) |
| Available for sale financial assets | - | - | (137,994) | 151,605 |
| Floating rate financial assets | 116,883 | (116,883) | 116,883 | (116,883) |
| Floating rate financial liabilities | (49,691) | 49,691 | (49,691) | 49,691 |
| **Total, net** | **44,553** | **(41,479)** | **(93,441)** | **84,413** |

(*) Equity effect also includes profit or loss effect of 100 bp increase or decrease in interest rates.

*(Currency – Thousands of New Turkish Lira (YTL))*

# Financial risk management *(continued)*

## Market risk *(continued)*

*Exposure to interest rate risk – non-trading portfolios*

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Treasury Department and equity price risk is subject to regular monitoring by Risk Management Department, but is not currently significant in relation to the overall results and financial position of the Group.

*Currency risk*

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in the income statement except for foreign exchange gain/loss arising from the conversion of the net investments in associates and subsidiaries in foreign countries into YTL.

Management of currency risk

Risk policy of the Bank is based on the transactions within the limits and keeping the currency position well-balanced.

In the light of the national legislations and international applications, the Bank has established a foreign currency risk management policy that enables the Bank to take position between lower and upper limits determined in respect of the current equity profile. Speculative position is not held by the Bank.

| **30 June 2007** | **US Dollar** | **EUR** | **Other currencies** | **Total** |
|---|---|---|---|---|
| Cash and balances with Central Bank | 15,029 | 288,258 | 2,295 | 305,582 |
| Financial assets designated at fair value through profit or loss | 290,882 | 134,408 | - | 425,290 |
| Loans and advances to banks | 3,221,252 | 436,947 | 35,879 | 3,694,078 |
| Loans and advances to customers | 4,165,700 | 1,683,381 | 56,699 | 5,905,780 |
| Investment securities | 2,722,571 | 819,452 | - | 3,542,023 |
| Property and equipment | 509 | 1,352 | - | 1,861 |
| Deferred tax assets | - | 107 | - | 107 |
| Other assets | 428,357 | 886,800 | 4,589 | 1,319,746 |
| **Total assets** | **10,844,300** | **4,250,705** | **99,462** | **15,194,467** |
| Deposits from banks | 100,567 | 6 | 262 | 100,835 |
| Deposits from customers | 3,266,670 | 3,091,187 | 39,191 | 6,397,048 |
| Obligations under repurchase agreements | 1,475,255 | 91,044 | - | 1,566,299 |
| Funds borrowed | 4,464,686 | 1,036,643 | 37,126 | 5,538,455 |
| Other liabilities and provisions | 247,199 | 99,489 | 2,398 | 349,086 |
| **Total liabilities** | **9,554,377** | **4,318,369** | **78,977** | **13,951,723** |
| **Net on balance sheet position** | **1,289,923** | **(67,664)** | **20,485** | **1,242,744** |
| **Net off balance sheet position** | **(1,079,719)** | **1,156** | **(4)** | **(1,078,567)** |
| **Net long / (short) position** | **210,204** | **(66,508)** | **20,481** | **164,177** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Market risk *(continued)*

| 31 December 2006 | US Dollar | EUR | Other currencies | Total |
|---|---|---|---|---|
| Cash and balances with Central Bank | 25,248 | 657,371 | 2,248 | 684,867 |
| Financial assets designated at fair value through profit or loss | 226,485 | 127,093 | 26,622 | 380,200 |
| Loans and advances to banks | 2,143,599 | 429,051 | 714 | 2,573,364 |
| Loans and advances to customers | 4,727,633 | 1,742,991 | 44,421 | 6,515,045 |
| Investment securities | 2,788,162 | 791,234 | - | 3,579,396 |
| Property and equipment | 190 | 1,398 | - | 1,588 |
| Deferred tax assets | - | - | - | - |
| Other assets | 602,328 | 703,277 | 11,432 | 1,317,037 |
| **Total assets** | **10,513,645** | **4,452,415** | **85,437** | **15,051,497** |
| Deposits from banks | 157,351 | 104 | 47 | 157,502 |
| Deposits from customers | 4,355,136 | 3,019,910 | 38,242 | 7,413,288 |
| Obligations under repurchase agreements | 1,382,966 | 83,156 | - | 1,466,122 |
| Funds borrowed | 4,234,561 | 1,039,200 | 26,909 | 5,300,670 |
| Other liabilities and provisions | 298,532 | 138,917 | 11,110 | 448,559 |
| **Total liabilities** | **10,428,546** | **4,281,287** | **76,308** | **14,786,141** |
| **Net on balance sheet position** | **85,099** | **171,128** | **9,129** | **265,356** |
| **Net off balance sheet position** | **(123,554)** | **44,884** | **1** | **(78,669)** |
| **Net long / (short) position** | **(38,455)** | **216,012** | **9,130** | **186,687** |

For the purposes of the evaluation of the table above, the figures represent the YTL equivalent of the related hard currencies.

*Exposure to currency risk*

A 10 percent devaluation of the YTL against the following currencies as at 30 June 2007 and 31 December 2006 would have increased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Profit or loss** | **Equity (*)** | **Profit or loss** | **Equity (*)** |
| US Dollar | 124,279 | 128,992 | 4,918 | 8,510 |
| EUR | (6,956) | (6,766) | 15,102 | 17,113 |
| Other currencies | 2,049 | 2,049 | (1,749) | (1,749) |
| **Total, net** | **119,372** | **124,275** | **18,271** | **23,874** |

(*) Equity effect also includes profit or loss effect of 10% devaluation of YTL against related currencies.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Market risk *(continued)*

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as the result of the changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity as a result of change in the fair value of equity instruments held as available for sale financial assets at 30 June 2007 and 31 December 2006 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

| | | 30 June 2007 | 31 December 2006 |
|---|---|---|---|
| | **Change in index** | **Equity** | **Equity** |
| ISE – 100 (IMKB100) | 10% | 5,550 | 5,548 |

*Fair value information*

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and security investments. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is YTL 19,409,091 (31 December 2006: YTL 18,531,974), whereas the carrying amount is YTL 19,613,288 (31 December 2006: YTL 18,706,855) in the accompanying consolidated balance sheet as at 30 June 2007.

Fair value of security investments is YTL 11,101,379 (31 December 2006: YTL 10,471,217), whereas the carrying amount is YTL 11,101,348 (31 December 2006: YTL 10,470,803) in the accompanying consolidated balance sheet as at 30 June 2007.

## Financial risk management *(continued)*

### (e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Auditing Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years 2004, 2005 and 2006. The amount calculated as YTL 414,018 as of 30 June 2007 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk is amounting to YTL 5,175,225.

### (f) Capital management – regulatory capital

Banking Regulation and Supervision Agency ("BRSA"), the regulator body of the banking industry sets and monitors capital requirements for the Bank and the individual banking operatins in Austria and Turkish Republic of Northern Cyprus. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of capital adequacy ratio based on consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investmets, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement as of 30 June 2007 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

*(Currency – Thousands of New Turkish Lira (YTL))*

## Financial risk management *(continued)*

### Capital management – regulatory capital *(continued)*

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the period.

The Bank's and its affiliates regulatory capital position on a consolidated basis at 30 June 2007 and 31 December 2006 was as follows:

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Tier 1 capital | 4,639,921 | 4,629,429 |
| Tier 2 capital | 198,736 | 190,651 |
| Deductions from capital | (355,427) | (249,345) |
| Total regulatory capital | 4,483,230 | 4,570,735 |
| | | |
| Risk-weighted assets | 22,272,820 | 21,290,916 |
| Value at market risk | 417,775 | 353,200 |
| Operational risk (*) | 5,175,225 | - |
| | | |
| Capital ratios | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk | 16.09 | 21.12 |
| Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk | 16.65 | 21.39 |

(*) Calculation of Operational Risk is started to be calculated after 1 June 2007 for the first time, in accordance with the article 24 of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks". Therefore operational risk was not included in the calculation of capital adequacy standard ratio as of 31 December 2006.

## 5. Segment reporting

Segment information is presented in respect of the Bank and its affiliates' geographical and business segments. The primary format, business segments, is based on the Bank and its affiliates.

Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

### Geographical segments

The Group operates principally in Turkey, but also have operations in Austria, Turkish Republic of Northern Cyprus, United States of America and Bahrain. As the operation results outside of Turkey are quite negligible in the consolidated results, geographical segment information is not presented.

*(Currency – Thousands of New Turkish Lira (YTL))*

# Segment reporting *(continued)*

## Business segments

| 30 June 2007 | Retail Banking | Corporate Banking | Investment Banking | Other Operations | Total Banking | Insurance | Leasing | Factoring | Other Financial | Other Non-Financial | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating profit | 437,839 | 679,239 | 84,612 | 283,671 | 1,485,361 | 20,116 | (11,641) | (36,237) | 6,153 | (6,145) | 1,457,607 | (44) | 1,457,563 |
| Undistributed expenses | - | - | - | (885,615) | (885,615) | - | - | - | - | - | (885,615) | 23,647 | (861,968) |
| **Operating profit** | **437,839** | **679,239** | **84,612** | **(601,944)** | **599,746** | **20,116** | **(11,641)** | **(36,237)** | **6,153** | **(6,145)** | **571,992** | **23,603** | **595,595** |
| Income before taxes | 437,839 | 679,239 | 84,612 | (601,944) | 599,746 | 20,116 | (11,641) | (36,237) | 6,153 | (6,145) | 571,992 | 23,603 | 595,595 |
| Provision for taxes | - | - | - | (111,458) | (111,458) | (1,236) | 584 | 456 | (741) | - | (112,395) | 1,301 | (111,094) |
| **Net profit** | **437,839** | **679,239** | **84,612** | **490,486** | **488,288** | **18,880** | **(11,057)** | **(35,781)** | **5,412** | **(6,145)** | **459,597** | **24,904** | **484,501** |

| 30 June 2007 | Retail Banking | Corporate Banking | Investment Banking | Other Operations | Total Banking | Insurance | Leasing | Factoring | Other Financial | Other Non-Financial | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 5,458,436 | 16,933,589 | 16,104,001 | 963,554 | 39,459,580 | 1,110,428 | 294,782 | 54,624 | 116,720 | 218,046 | 41,254,180 | (308,678) | 40,945,502 |
| Investments in associates and subsidiaries | - | - | - | 559,511 | 559,511 | 77,510 | 7,322 | 6,159 | 8,659 | 8,302 | 667,463 | (547,959) | 119,504 |
| **Total assets** | **5,458,436** | **16,933,589** | **16,104,001** | **1,523,065** | **40,019,091** | **1,187,938** | **302,104** | **60,783** | **125,379** | **226,348** | **41,921,643** | **(856,637)** | **41,065,006** |
| Segment liabilities | 10,359,866 | 19,901,498 | 4,387,880 | 474,450 | 35,123,694 | 888,013 | 264,597 | 19,084 | 20,039 | 4,116 | 36,319,543 | (294,207) | 36,025,336 |
| Shareholders' equity and minority interest | - | - | - | 4,895,397 | 4,895,397 | 299,925 | 37,507 | 41,699 | 105,340 | 222,232 | 5,602,100 | (562,430) | 5,039,670 |
| **Total Liabilities and Shareholders' Equity** | **10,359,866** | **19,901,498** | **4,387,880** | **5,369,847** | **40,019,091** | **1,187,938** | **302,104** | **60,783** | **125,379** | **226,348** | **41,921,643** | **(856,637)** | **41,065,006** |

*(Currency – Thousands of New Turkish Lira (YTL))*

# Segment reporting *(continued)*

## Business segments *(continued)*

| 30 June 2006 | Retail Banking | Corporate Banking | Investment Banking | Other Operations | Total Banking | Insurance | Leasing | Factoring | Other Financial | Other Non-Financial | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating profit | 133,801 | 396,521 | 493,094 | 66,514 | 1,089,930 | 45,262 | 446 | 1,459 | 4,358 | 55,736 | 1,197,191 | (6,334) | 1,190,857 |
| Undistributed expenses | - | - | - | (557,930) | (557,930) | - | - | - | - | - | (557,930) | (6,474) | (564,404) |
| **Operating profit** | **133,801** | **396,521** | **493,094** | **(491,416)** | **532,000** | **45,262** | **446** | **1,459** | **4,358** | **55,736** | **639,261** | **(12,808)** | **626,453** |
| Income before taxes | 133,801 | 396,521 | 493,094 | (491,416) | 532,000 | 45,262 | 446 | 1,459 | 4,358 | 55,736 | 639,261 | (12,808) | 626,453 |
| Provision for taxes | - | - | - | (151,490) | (151,490) | (949) | (24) | - | (634) | (2,238) | (155,335) | 7,547 | (147,788) |
| **Net profit** | **133,801** | **396,521** | **493,094** | **(642,906)** | **380,510** | **44,313** | **422** | **1,459** | **3,724** | **53,498** | **483,926** | **(5,261)** | **478,665** |

| 31 December 2006 | Retail Banking | Corporate Banking | Investment Banking | Other Operations | Total Banking | Insurance | Leasing | Factoring | Other Financial | Other Non-Financial | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 4,985,290 | 13,749,432 | 17,638,645 | 802,450 | 37,175,817 | 978,909 | 288,032 | 47,229 | 94,165 | 250,626 | 38,834,778 | (243,327) | 38,591,451 |
| Investments in associates and subsidiaries | - | - | - | 502,762 | 502,762 | 79,082 | 25,462 | 51,664 | 8,803 | 12,563 | 680,336 | (537,458) | 142,878 |
| **Total assets** | **4,985,290** | **13,749,432** | **17,638,645** | **1,305,212** | **37,678,579** | **1,057,991** | **313,494** | **98,893** | **102,968** | **263,189** | **39,515,114** | **(780,785)** | **38,734,329** |
| Segment liabilities | 9,431,844 | 14,695,606 | 7,314,469 | 1,518,370 | 32,960,289 | 771,010 | 264,938 | 21,413 | 3,040 | 2,621 | 34,023,311 | (201,079) | 33,822,232 |
| Shareholders' equity and minority interest | - | - | - | 4,718,290 | 4,718,290 | 286,981 | 48,556 | 77,480 | 99,928 | 260,568 | 5,491,803 | (579,706) | 4,912,097 |
| **Total Liabilities and Shareholders' Equity** | **9,431,844** | **14,695,606** | **7,314,469** | **6,236,660** | **37,678,579** | **1,057,991** | **313,494** | **98,893** | **102,968** | **263,189** | **39,515,114** | **(780,785)** | **38,734,329** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 6. Cash and balances with the Central Bank

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Cash on hand | 283,167 | 412,477 |
| Balances with the Central Bank excluding reserve deposits | 261,036 | 295,923 |
| Others | 522 | 612 |
| **Total cash and balances with the Central Bank** | **544,725** | **709,012** |

Cash and balances with the Central Bank include cash balances on hand, due from Central Bank and other cash items.

Cash and cash equivalents as at 30 June 2007 and 31 December 2006, included in the accompanying consolidated statements of cash flows are as follows:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Cash on hand | 283,167 | 412,477 |
| Balances with the Central Bank | 261,036 | 295,923 |
| Receivable from reverse repurchase agreements | 144 | 120,922 |
| Loans and advances to banks with original maturity less than three months | 4,577,477 | 3,911,301 |
| Others | 522 | 612 |
| | **5,122,346** | **4,741,235** |
| Blocked bank deposits | (85,779) | (45,791) |
| **Total cash and cash equivalents** | **5,036,567** | **4,695,444** |

## 7. Financial assets designated at fair value through profit or loss

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| *Debt and other instruments held at fair value:* | | | | |
| Eurobonds issued by Turkish Government | 322,301 | 411,544 | 356,488 | 462,055 |
| Government bonds in YTL | 103,106 | 113,020 | 94,631 | 94,802 |
| Treasury bills in YTL | 3,461 | 3,418 | 3,000 | 3,303 |
| | **428,868** | **527,982** | **451,119** | **560,160** |
| *Equity and other non-fixed income instruments:* | | | | |
| Listed shares | | 982 | | 1,470 |
| Investment funds | | 672 | | 10,454 |
| Derivatives held for trading | | 35,012 | | 10,026 |
| | | **36,666** | | **21,950** |
| **Total financial assets designated at fair value through profit or loss** | **428,868** | **564,648** | **451,119** | **582,110** |

Income from debt and other instruments held at fair value is reflected in the consolidated statement of income as interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income.

For the six-month period ended 30 June 2007, net income from trading of financial assets amounting to YTL 47,589 (30 June 2006: YTL 44,190) in total is included in “trading income, net”.

*(Currency – Thousands of New Turkish Lira (YTL))*

## 7. Financial assets designated at fair value through profit or loss *(continued)*

The following table summarizes securities that were deposited as collaterals with respect to various banking transactions:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| Deposited at Istanbul Stock Exchange for repurchase transactions | 15,756 | 17,271 | - | - |
| Deposited at foreign banks for repurchase transactions | 122,026 | 187,298 | 153,127 | 198,472 |
| | **137,782** | **204,569** | **153,127** | **198,472** |

*Derivative financial instruments held for trading purposes:*

In the ordinary course of business, the Group enters into various types of transactions that involve 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. Derivative financial instruments include forwards and swaps.

The table below shows the the notional amounts of derivative instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period/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.

| | 30 June 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
| Currency swaps: | | | | | | |
| Purchases | 1,119,038 | 81,691 | 29,794 | - | - | 1,230,523 |
| Sales | 1,107,741 | 80,244 | 29,653 | - | - | 1,217,638 |
| Currency forwards: | | | | | | |
| Purchases | 4,426 | 11,916 | 28,811 | 5,482 | - | 50,635 |
| Sales | 4,424 | 11,902 | 28,799 | 5,481 | - | 50,606 |
| Cross currency interest rate swaps: | | | | | | |
| Purchases | - | - | - | - | 135,160 | 135,160 |
| Sales | - | - | - | - | 134,730 | 134,730 |
| Interest rate swaps: | | | | | | |
| Purchases | - | - | - | - | 189,009 | 189,009 |
| Sales | - | - | - | - | 156,433 | 156,433 |
| Total of purchases | 1,123,464 | 93,607 | 58,605 | 5,482 | 324,169 | 1,605,327 |
| Total of sales | 1,112,165 | 92,146 | 58,452 | 5,481 | 291,163 | 1,559,407 |
| **Total of transactions** | **2,235,629** | **185,753** | **117,057** | **10,963** | **615,132** | **3,164,734** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 7. Financial assets at designated fair value through profit or loss *(continued)*

| | 31 December 2006 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1 to 3 months** | **3 to 6 months** | **6 to 12 months** | **Over 1 year** | **Total** |
| Currency swaps: | | | | | | |
| Purchases | - | 3,678 | - | 38,199 | - | 41,877 |
| Sales | - | 3,677 | - | 38,058 | - | 41,735 |
| Cross currency interest rate swaps: | | | | | | |
| Purchases | - | - | - | - | 83,160 | 83,160 |
| Sales | - | - | - | - | 88,200 | 88,200 |
| Interest rate swaps: | | | | | | |
| Purchases | - | - | - | - | 112,988 | 112,988 |
| Sales | - | - | - | - | 104,427 | 104,427 |
| Total of purchases | - | 3,678 | - | 38,199 | 196,148 | 238,025 |
| Total of sales | - | 3,677 | - | 38,058 | 192,627 | 234,362 |
| **Total of transactions** | **-** | **7,355** | **-** | **76,257** | **388,775** | **472,387** |

## 8. Repurchase agreements

The Group lend its extra fund as a result of daily operations to other financial institutions through repurchase agreements. Assets purchased under repurchase agreements comprise the following:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Fair value of underlying asset** | **Carrying Value of corresponding assets** | **Fair value of underlying asset** | **Carrying Value of corresponding assets** |
| Reverse repurchase agreements | 135 | 144 | 132,150 | 120,922 |

Accrued interest on receivables from repurchase agreements amounting to YTL 1 (31 December 2006: YTL 207) is included in the carrying amount of corresponding assets.

The Group raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Fair value of underlying asset** | **Carrying Value of corresponding liabilities** | **Fair value of underlying asset** | **Carrying Value of corresponding liabilities** |
| Financial assets designated at fair value through profit or loss | 204,569 | 162,806 | 198,472 | 154,114 |
| Investment securities | 2,670,437 | 2,152,333 | 1,679,987 | 1,334,134 |
| | **2,875,006** | **2,315,139** | **1,878,459** | **1,488,248** |

Accrued interest on obligations under repurchase agreements amounting to YTL 43,057 (31 December 2006: YTL 21,407) is included in the carrying amount of corresponding liabilities.

In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

*(Currency – Thousands of New Turkish Lira (YTL))*

## 9. Loans and advances to banks

As of 30 June 2007 and 31 December 2006, loans and advances to banks comprise the followings:

| | 30 June 2007 | | | 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | **YTL** | **Foreign Currency** | **Total** | **YTL** | **Foreign Currency** | **Total** |
| *Loans and advances to banks – demand:* | | | | | | |
| Domestic banks | 73,301 | 18,403 | 91,704 | 46,364 | 17,294 | 63,658 |
| Foreign banks | 18 | 146,618 | 146,636 | 145 | 126,331 | 126,476 |
| | **73,319** | **165,021** | **238,340** | **46,509** | **143,625** | **190,134** |
| *Loans and advances to banks – time:* | | | | | | |
| Domestic banks | 337,452 | 64,197 | 401,649 | 1,035,517 | 71,222 | 1,106,739 |
| Foreign banks | 472,696 | 3,464,860 | 3,937,556 | 256,469 | 2,358,517 | 2,614,986 |
| | **810,148** | **3,529,057** | **4,339,205** | **1,291,986** | **2,429,739** | **3,721,725** |
| **Total loans and advances to banks** | **883,467** | **3,694,078** | **4,577,545** | **1,338,495** | **2,573,364** | **3,911,859** |

As at 30 June 2007, loans and advances-demand at foreign banks include blocked accounts of YTL 85,779 (31 December 2006: YTL 45,791) held against the "Diversified Payment Rights" securitizations and insurance business.

## 10. Loans and advances to customers

As at 30 June 2007 and 31 December 2006, outstanding loans and advances to customers comprise the followings:

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Corporate loans | 13,493,154 | 13,071,531 |
| Consumer loans | 4,899,930 | 4,315,816 |
| Credit cards | 583,622 | 641,638 |
| Loans and advances to financial institutions | 337,011 | 380,779 |
| Total performing loans | 19,313,717 | 18,409,764 |
| Non-performing loans | 1,138,410 | 1,059,286 |
| **Total gross loans** | **20,452,127** | **19,469,050** |
| Financial lease receivables, net of unearned income | 287,312 | 290,166 |
| Factoring receivables | 55,719 | 47,015 |
| Allowance for possible loan losses from loans and lease receivables | (1,181,870) | (1,099,376) |
| **Loans and advances to customers** | **19,613,288** | **18,706,855** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 10. Loans and advances to customers *(continued)*

The specific allowance for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the allowance for possible loan losses:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Reserve at beginning of period/year | 1,099,376 | 1,090,090 |
| Adjustment for currency translation | (3,991) | 2,770 |
| Provision for possible loan losses | 246,330 | 368,884 |
| Recoveries | (157,288) | (361,487) |
| Provision, net of recoveries | 1,184,427 | 1,100,257 |
| Loans written off during the period/year | (2,557) | (881) |
| **Reserve at end of period/year** | **1,181,870** | **1,099,376** |

## 11. Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following financial lease receivables:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Financial lease receivables, net of unearned incomes | 248,778 | 252,276 |
| Add: non-performing lease receivables | 38,534 | 37,890 |
| Less: allowance for possible losses on lease receivables | (38,534) | (37,890) |
| | **248,778** | **252,276** |

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Due within one year | 127,080 | 139,088 |
| Due between 1 and 5 years | 168,024 | 160,387 |
| Financial lease receivables, gross | 295,104 | 299,475 |
| Unearned income | (46,326) | (47,199) |
| **Financial lease receivables, net** | **248,778** | **252,276** |
| Due within one year | 106,011 | 117,249 |
| Due between 1 and 5 years | 142,767 | 135,027 |
| **Financial lease receivables, net** | **248,778** | **252,276** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 12. Investment securities

As at 30 June 2007 and 31 December 2006, investment securities comprised the following:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Available-for-sale financial assets | 10,126,914 | 10,190,352 |
| Held to maturity securities | 974,434 | 280,451 |
| **Total investment securities** | **11,101,348** | **10,470,803** |

*Available-for-sale financial assets:*

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| *Debt and other instruments available for sale:* | | | | |
| Government bonds in YTL | 6,836,823 | 6,651,094 | 6,589,891 | 6,392,223 |
| Government bonds in foreign currencies | 1,820,522 | 1,856,424 | 1,468,266 | 1,493,991 |
| Eurobonds issued by Turkish Government | 1,438,908 | 1,518,571 | 1,954,950 | 2,055,568 |
| Treasury bills in YTL | 99,644 | 98,846 | 253,972 | 246,574 |
| | **10,195,897** | **10,124,935** | **10,267,079** | **10,118,356** |
| *Equity and other non-fixed income instruments:* | | | | |
| Listed shares | 632 | 1,979 | 664 | 1,996 |
| | **632** | **1,979** | **664** | **1,996** |
| **Total available-for-sale financial assets** | **10,196,529** | **10,126,914** | **10,267,743** | **10,190,352** |

The following table summarizes securities that were deposited as collaterals with respect to various banking transactions:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| Deposited at Central Bank of Turkey for interbank transactions | 650,000 | 697,055 | 1,552,000 | 1,602,423 |
| Deposited at Central Bank of Turkey for foreign currency money market transactions | 247,000 | 274,170 | 42,000 | 47,420 |
| Deposited at Istanbul Stock Exchange for repurchase transactions | 285,000 | 250,042 | 285,000 | 223,166 |
| Deposited in Financial Institutions for repurchase transactions | 45,666 | 46,637 | 51,624 | 52,268 |
| Deposited at Clearing Bank | 20 | 18 | 439,020 | 477,588 |
| Others | 316,032 | 278,298 | 382,110 | 370,915 |
| | **1,543,718** | **1,546,220** | **2,751,754** | **2,773,780** |

The Bank reclassified certain security investments, previously classified in its securities available-for-sale portfolio, amounting YTL 704,709 with total face value of YTL 700,000 to its securities held-to-maturity portfolio. Such securities are included in the securities held-to-maturity portfolio above at their fair values of YTL 704,709 as of their reclassification dates. The value increases of such securities amounting YTL 2,066 are recorded under the shareholders' equity and amortized through the statement of income up to their maturities as earned.

*(Currency – Thousands of New Turkish Lira (YTL))*

## 12. Investment securities *(continued)*

*Held to maturity securities:*

| | 30 June 2007 | | | 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | Face Value | Carrying Value | Fair Value | Face Value | Carrying Value | Fair Value |
| *Debt and other instruments:* | | | | | | |
| Government bonds in YTL | 818,450 | 809,385 | 809,541 | 96,711 | 92,322 | 90,774 |
| Eurobonds issued by Turkish Government | 83,386 | 88,398 | 89,096 | 89,540 | 95,220 | 98,321 |
| Certificate of deposits | 39,525 | 39,167 | 39,167 | 42,441 | 42,319 | 42,319 |
| Government bonds in foreign currencies | 36,445 | 37,484 | 36,661 | 48,766 | 50,590 | 49,451 |
| **Total held to maturity securities** | **977,806** | **974,434** | **974,465** | **277,458** | **280,451** | **280,865** |

The following table summarizes securities that were deposited as collaterals with respect to various banking transactions:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| Deposited at Central Bank of Turkey for interbank transactions | 700,000 | 711,294 | - | - |
| Deposited at foreign financial institutions for repurchase transactions | 62,791 | 64,646 | 62,912 | 65,918 |
| Others | 109,975 | 97,203 | 96,641 | 94,238 |
| | **872,766** | **873,143** | **159,553** | **160,156** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 13. Investment in equity participations

| | 30 June 2007 | | | 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | **At Cost** | **Value Decrease** | **Carrying Value** | **At Cost** | **Value Decrease** | **Carrying Value** |
| *Unquated investmets:* | | | | | | |
| İMKB Takas ve Saklama Bankası AŞ | 9,599 | - | 9,599 | 9,599 | - | 9,599 |
| Roketsan Roket Sanayi ve Tic. AŞ | 7,594 | - | 7,594 | 7,594 | - | 7,594 |
| Vakıf Sistem Pazarlama AŞ | 8,520 | (1,667) | 6,853 | 7,010 | - | 7,010 |
| Kıbrıs Vakıflar Bankası Ltd. | 5,196 | - | 5,196 | 3,375 | - | 3,375 |
| Güney Ege Enerji İşlt. Ltd. Şti. | 221,591 | (217,793) | 3,798 | 221,591 | (217,793) | 3,798 |
| Bayek Tedavi ve Sağlık Hizmetleri AŞ | 35,528 | (32,329) | 3,199 | 35,528 | (32,329) | 3,199 |
| Vakıf İnşaat Rotasyon AŞ | 8,502 | (5,892) | 2,610 | 8,502 | (423) | 8,079 |
| Kredi Kayıt Bürosu AŞ | 1,792 | - | 1,792 | 1,792 | - | 1,792 |
| Bankalararası Kart Merkezi AŞ | 1,369 | - | 1,369 | 1,175 | - | 1,175 |
| Vadeli İşlem ve Opsiyon Borsası AŞ | 1,170 | - | 1,170 | 1,170 | - | 1,170 |
| Vakıf Gayrimenkul Ekpertiz ve Değ. AŞ | 898 | - | 898 | 866 | - | 866 |
| Vak-Bel İthalat A.Ş. | 12,919 | (12,919) | - | 12,919 | (12,919) | - |
| İzmir Enternasyonal Otelcilik AŞ | 6,461 | (6,461) | - | 6,461 | - | 6,461 |
| İstanbul Reasürans AŞ | 2,132 | (2,132) | - | 2,132 | (2,132) | - |
| Ortadoğu Yazılım Hizmetleri | - | - | - | 15,133 | - | 15,133 |
| EGS Gayrimenkul Yatırım Ort. AŞ | - | - | - | 122 | - | 122 |
| Others | 2,757 | (477) | 2,280 | 1,638 | (477) | 1,161 |
| | **326,028** | **(279,670)** | **46,358** | **336,607** | **(266,073)** | **70,534** |
| | **Carrying Value** | **Value Decrease** | **Carrying Value** | **Carryin g Value** | **Value Decrease** | **Carrying Value** |
| *Quated investments:* | | | | | | |
| Türkiye Sınai Kalkınma Bankası AŞ | 67,456 | - | 67,456 | 65,495 | - | 65,495 |
| Others | 5,690 | - | 5,690 | 7,273 | (424) | 6,849 |
| | **73,146** | **-** | **73,146** | **72,768** | **(424)** | **72,344** |
| | **399,174** | **(279,670)** | **119,504** | **409,375** | **(266,497)** | **142,878** |

In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi ("Güney Enerji") for a consideration of US Dollar 103,500,000 (YTL 161,977) from a borrower experiencing financial difficulty and transferred this shareholding to a newly established participation in 2001, Vakıf Enerji ve Madencilik AŞ ("Vakıf Enerji"), for the same consideration. While, Güney Enerji was holding the operating rights for Yatağan, Yeniköy and Kemerköy power generation plants which are within the scope of privatization programme, the operating of related plants depent on the conclusion on administrative procedures in accrodance with the decisions of Council of Minsiters. As per the decision no.2002/4518 of the Council of State on 21 January 2003, the operating right of theses plants were cancelled. As of 10 July 2003, Vakıf Enerji and the other shareholders of Güney Enerji applied to the International Arbitration Board against the Ministry of Energy for the compensation of lost profit and other expenses. The arbitration process reached a conclusion on 21 October 2004. Accordingly, Güney Enerji was entitled to a total compensation of US Dollar 90,000,000. Güney Enerji has paid compensation to Vakıf Enerji according to its 45% shareholding after deduction of taxes in the year 2006.

Equity shares having a carrying value of YTL 112, representing the 0.73% of the outstanding shares of EGS Gayrimenkul Yatırım Ortaklığı AŞ which were classified in the available for sale portfolio of the Bank in the prior periods, were sold at a price of YTL 102 on 6 June 2007. The Bank has recorded loss on sale of equity shares amounting to YTL 10 in its financial statements.

*(Currency – Thousands of New Turkish Lira (YTL))*

## 13. Investment in equity participations *(continued)*

The Group sold its shares in Orta Doğu Yazılım Hizmetleri AŞ with a carrying value of YTL 15,133 to Ahmet Serdar Oğhan Ortak Girişim Grubu in cash by US Dollar 4,810,000 on 16 April 2007 based on no.75471 and 26 January 2007 dated resolution of the Board of Directors. 9% of the outstanding shares owned by the Bank, 20% of the outstanding shares owned by Vakıf Deniz Finansal Kiralama AŞ, 25% of outstanding shares owned by Obaköy Gıda İşletmecilik AŞ, 15% of outstanding shares owned by Vakıf Girişim Sermayesi AŞ and 6% of outstanding shares owned by Vakıf Sistem Pazarlama AŞ were subject to sales agreement and the Bank has recorded loss on sale of associates amounting to YTL 8,639.

20% of outstanding shares of Banque Du Bosphore with a nominal value of EUR 3,200,000 were sold to Financiere De Paris at a total price of EUR 4,402,000 on 10 March 2006. Total sale price was collected in cash.

As per the resolution no.74887 of the Board of Directors of the Bank on 22 August 2006, it is decided to start liquidation process of Vakıf Sistem Pazarlama Yazılım Servis ve Ticaret AŞ, that the Bank owns 73% of its outstanding shares.

## 14. Property and equipment and intangible assets

Movement in property and equipment from 1 January to 30 June 2007 and 1 January to 31 December 2006 is as follows:

| | 1 January 2007 | Currency translatio n difference | Transfer | Additions | Disposals | 30 June 2007 |
|---|---|---|---|---|---|---|
| *Cost:* | | | | | | |
| Land and buildings | 820,002 | - | 80,772 | 12,532 | (8,255) | 905,051 |
| Motor vehicles | 29,461 | (2) | - | 1,469 | (705) | 30,223 |
| Furniture, office equipment and leasehold improvements | 456,578 | (153) | - | 23,991 | (9,202) | 471,214 |
| Other tangibles | 27,178 | - | - | 23,488 | (4,401) | 46,265 |
| | **1,333,219** | **(155)** | **80,772** | **61,480** | **(22,563)** | **1,452,753** |
| ***Accumulated depreciation:*** | | | | | | |
| Land and buildings | 165,302 | - | 5,633 | 3,539 | (1,377) | 173,097 |
| Motor vehicles | 25,486 | (2) | - | 1,958 | (377) | 27,065 |
| Furniture, office equipment and leasehold improvements | 385,439 | (88) | - | 24,736 | (3,309) | 406,778 |
| Other tangibles | 6,799 | - | - | 4,999 | (4,127) | 7,671 |
| | **583,026** | **(90)** | **5,633** | **35,232** | **(9,190)** | **614,611** |
| **Net Book Value** | **750,193** | **(65)** | **75,139** | **26,248** | **(13,373)** | **838,142** |

| | 1 January 2007 | Currency translation difference | Transfer | Additions | Disposals | 30 June 2007 |
|---|---|---|---|---|---|---|
| *Cost:* | | | | | | |
| Intangible assets | 13,487 | (20) | - | 1,790 | (1,579) | 13,678 |
| | **13,487** | **(20)** | **-** | **1,790** | **(1,579)** | **13,678** |
| ***Accumulated amortization:*** | | | | | | |
| Intangible assets | 5,819 | (11) | - | 1,638 | (135) | 7,311 |
| | **5,819** | **(11)** | **-** | **1,638** | **(135)** | **7,311** |
| **Net Book Value** | **7,668** | **(9)** | **-** | **152** | **(1,444)** | **6,367** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 14. Property and equipment and intangible assets *(continued)*

| | **1 January 2006** | **Additions** | **Disposals** | **31 December 2006** |
|---|---|---|---|---|
| *Cost:* | | | | |
| Land and buildings | 824,772 | 31,249 | (36,019) | 820,002 |
| Motor vehicles | 29,140 | 1,962 | (1,640) | 29,461 |
| Furniture, office equipment and leasehold improvements | 434,894 | 45,571 | (23,888) | 456,578 |
| Other tangibles | 16,715 | 13,474 | (3,011) | 27,178 |
| | **1,305,521** | **92,256** | **(64,558)** | **1,333,219** |
| ***Accumulated depreciation:*** | | | | |
| Land and buildings | 154,683 | 25,576 | (14,957) | 165,302 |
| Motor vehicles | 23,759 | 3,221 | (1,494) | 25,486 |
| Furniture, office equipment and leasehold improvements | 359,286 | 47,913 | (21,760) | 385,439 |
| Other tangibles | 8,769 | 1,012 | (2,982) | 6,799 |
| | **546,497** | **77,722** | **(41,193)** | **583,026** |
| **Net Book Value** | **759,024** | **14,534** | **(23,365)** | **750,193** |

| | **1 January 2006** | **Additions** | **Disposals** | **31 December 2006** |
|---|---|---|---|---|
| *Cost:* | | | | |
| Intangible assets | 11,985 | 1,502 | - | 13,487 |
| | **11,985** | **1,502** | **-** | **13,487** |
| ***Accumulated amortization:*** | | | | |
| Intangible assets | 4,715 | 1,104 | - | 5,819 |
| | **4,715** | **1,104** | - | 5,819 |
| **Net Book Value** | **7,270** | **398** | **-** | **7,668** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 15. Other assets

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Reserve deposit at Central Bank of Turkey | 2,175,223 | 2,077,523 |
| Receivables from insurance activities | 425,849 | 334,580 |
| Asset held for resale | 281,469 | 337,059 |
| Receivables from derivative financial instruments | 179,710 | - |
| Prepaid expenses | 173,087 | 58,120 |
| Receivables from sale of fixed assets | 154,324 | 175,827 |
| Investment properties | 57,810 | 62,103 |
| Receivables from credit card payments | 53,537 | 37,630 |
| Deferred acquisition cost, net of ceded | 46,324 | 40,135 |
| Miscellaneous receivables | 26,894 | 84,886 |
| Prepaid taxes and taxes and funds to be refunded | 4,380 | 1,747 |
| Others | 93,482 | 108,470 |
| **Total other assets** | **3,672,089** | **3,318,080** |

At 30 June 2007, reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for YTL and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. The interest rates given by the Central Bank of Turkey are 12.93% for YTL, 2.530% for US Dollar and 1.965% for Euro as of 30 June 2007.

YTL 281,469 (31 December 2006: YTL 337,059) of the other assets is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators.

## 16. Deposit from banks

Deposits from banks comprise the following:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Payable on demand | 593 | 3,129 |
| Term deposits | 319,679 | 596,284 |
| **Total deposit from banks** | **320,272** | **599,413** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 17. Deposit from customers

Deposits from customers comprise the following:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Demand Deposit** | **Time Deposit** | **Demand Deposit** | **Time Deposit** |
| Saving Deposits | 680,607 | 5,985,266 | 729,350 | 5,258,908 |
| Foreign Currency Deposits | 869,070 | 5,527,978 | 1,350,997 | 6,062,291 |
| Residents in Turkey | 799,787 | 5,059,652 | 1,276,939 | 5,609,285 |
| Residents in Abroad | 69,283 | 468,326 | 74,058 | 453,006 |
| Commercial Deposits | 641,384 | 4,430,653 | 666,345 | 2,953,572 |
| Public Sector Deposits | 643,490 | 2,049,757 | 1,037,666 | 1,683,737 |
| Other | 599,953 | 4,249,909 | 553,642 | 4,171,947 |
| **Total deposit from customers** | **3,434,504** | **22,243,563** | **4,338,000** | **20,130,455** |

## 18. Funds borrowed

Funds borrowed comprise the followings:

| | 30 June 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **YTL** | **Foreign currency** | **YTL** | **Foreign Currency** |
| Short-term funds | 55,939 | 2,154,919 | 60,950 | 1,9 |
| Short-term portion of long term funds | - | 102,606 | - | 74,335 |
| Total short-term funds | 55,939 | 2,257,525 | 60,950 | 2,020,783 |
| Medium/long term funds | 124,971 | 3,280,930 | 164,029 | 3,279,887 |
| **Total fund borrowed** | **180,910** | **5,538,455** | **224,979** | **5,300,670** |

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 14.04 % of the Bank's liabilities. There is no risk concentration on funding sources of the Bank.

On 19 July 2006, the Bank has obtained syndication loan of US Dollar 700 million having one year maturity and Libor+0.525% interest rate, with the participation of 22 international banks through club deal.

On 20 December 2006, the Bank has obtained syndication loan of US Dollar 700 million comprised of three tranches having 1, 2 and 3 years of maturity and interest rate Libor+0.525%, Libor+0.626% and Libor+0.826%, respectively, with the participation of 26 international banks through club deal.

On 22 May 2007, the Bank has obtained securitization loan of US Dollar 500 million based on overseas remittance flows of the Bank's clients. US Dollar 150 million of which has a maturity of 8 years and the remaining US Dollar 350 million of which has a maturity of 10 years.

*(Currency – Thousands of New Turkish Lira (YTL))*

## 19. Other liabilities and provisions

The principal components of other liabilities and accrued expenses are as follows:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Blocked accounts against expenditures of card holders | 287,049 | 244,373 |
| Payables to insurance and reinsurance companies | 283,298 | 233,502 |
| Life mathematical provisions | 275,992 | 268,632 |
| Unearned premium reserve | 171,686 | 122,552 |
| Miscellaneous payables | 166,714 | 20,228 |
| Reserve for employee severance indemnity | 113,253 | 109,440 |
| Transfer orders | 100,089 | 99,042 |
| Provision for outstanding claims | 88,809 | 82,819 |
| Provision for non-cash loans | 83,560 | 98,860 |
| Blocked accounts | 48,085 | 46,894 |
| Unearned income | 37,846 | 37,741 |
| Payables to suppliers relating to financial lease activities | 26,272 | 19,919 |
| Withholding taxes | 17,128 | 16,313 |
| Unearned income | 15,862 | 10,311 |
| Derivative financial instruments | 7,214 | 3,765 |
| Advances received | 4,551 | 4,497 |
| Factoring payables | 3,016 | 1,784 |
| Others | 187,216 | 230,582 |
| **Total other liabilities and provisions** | **1,917,640** | **1,651,254** |

Insurance business related provisions are detailed in the table below:

| **Unearned premium reserve** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| At 1 January | 122,552 | 106,608 |
| Premiums written in the period / year | 190,021 | 237,980 |
| Premiums earned during the period / year | (140,887) | (222,036) |
| **At the end of the period / year** | **171,686** | **122,552** |

| **Provision for outstanding claims** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| At 1 January | 82,819 | 73,484 |
| Cash paid for claims settled during the period / year | (112,304) | (201,373) |
| Increase during the period | 118,294 | 210,708 |
| **At the end of the period / year** | **88,809** | **82,819** |

| **Life mathematical provision** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| At 1 January | 268,632 | 280,067 |
| Entrance during the period / year | 79,204 | 69,919 |
| Withdrawals during the period / year | (74,291) | (81,104) |
| Change in unrecognized gain from backing assets | 2,447 | (250) |
| **At the end of the period / year** | **275,992** | **268,632** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 19. Other liabilities and provisions *(continued)*

Movement in the reserve for employee severance indemnity is as follows:

| Reserve for employee severance indemnity | 30 June 2007 | 31 December 2006 |
|---|---|---|
| At 1 January | 109,440 | 94,957 |
| Currency translation difference | (6) | (340) |
| Payment during the period / year | (242) | (280) |
| Provision for the period / year | 4,061 | 15,103 |
| **At the end of the period / year** | **113,253** | **109,440** |

## 20. Income taxes

Major components of income tax expense:

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| ***Current income tax*** | | |
| Current income tax charge | (129,418) | (28,714) |
| ***Deferred income tax*** | | |
| Relating to origination and reversal of temporary differences | 18,324 | (119,074) |
| **Income tax provision reported in consolidated statement of income** | **(111,094)** | **(147,788)** |

The taxes payable and prepaid taxes are detailed below:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Current taxes payable | 129,418 | 184,283 |
| Prepaid taxes during the period / year | (60,510) | (95,070) |
| **Income taxes payables** | **68,908** | **89,213** |

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 Group's effective income tax rate for the six-month period ended 30 June 2007 were as follows :

| | 30 June 2007 | Tax rate (%) | 30 June 2006 | Tax rate (%) |
|---|---|---|---|---|
| Net profit from ordinary activities before income tax and minority interest | **595,595** | | **626,453** | |
| Taxes on income per statutory tax rate | (119,119) | (20.00) | (125,291) | (20.00) |
| Effect of income not subject to tax | 13,520 | 2.27 | 3,152 | 0.50 |
| Non-tax deductible impairment losses | 5,734 | 0.96 | - | - |
| Disallowable expenses | (901) | (0.15) | (183) | (0.03) |
| Tax rate change | - | - | (34,072) | (5.44) |
| Effect of others, net | (10,328) | (1.73) | 8,606 | 1.38 |
| **Provision for taxes on income** | **(111,094)** | **(18.65)** | **(147,788)** | **(23.59)** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 20. Income taxes *(continued)*

Deferred taxes at 30 June 2007 and 31 December 2006 are attributable to the items below:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| | **Deferred tax Assets/ (Liabilities)** | **Deferred tax Assets/ (Liabilities)** |
| *Deferred taxes:* | | |
| Provision for Retirement pay liability and Unused Vacation | 24,463 | 23,771 |
| Valuation differences of premises and equipment, intangibles and assets held for resale | 29,026 | 27,937 |
| Difference in valuation of equity participations | (898) | (372) |
| Differences in valuation of financial assets | (23,122) | (33,136) |
| Others | (2,263) | (4,251) |
| **Total deferred tax assets** | **27,206** | **13,949** |
| | | |
| Differences in valuation of financial assets | (5,945) | - |
| **Total deferred tax liabilities** | **(5,945)** | **-** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 21. Shareholders' equity

The authorized nominal share capital of the Bank amounted to YTL 2,500,000 as of 30 June 2007.

The shareholder holding direct or indirect control over the Bank is The General Directorate of the Foundations having 58.45% of the Bank's outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (the pension fund of the employees of the Bank), having 16.10% of outstanding shares of the Bank.

On 19 December 2006 the Bank's paid-in share capital increased from YTL 1,279,000 to YTL 2,500,000 by YTL 1,221,000 through YTL 605,763 from other capital reserves, YTL 448,205 from share issuance premium, YTL 154,500 from extraordinary reserves, YTL 7,795 from revaluation fund, and YTL 4,737 from other profit reserves. The Bank's paid-in capital is divided into 2.500.000.000 shares with each has a nominal value of 1 New Turkish Lira.

Paid-in capital of the Bank amounted to YTL 2,500,000 is divided into groups comprised of 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D).

Board of Directors' members; one member appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members representing Group (A), one member representing Group (B), and two members representing Group (C); among the nominees shown by the majority of each group, and one member among the nominees offered by the shareholders at the General Assembly are selected. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Based on the resolution of 53rd Annual General Assembly held on 30 March 2007, net profit of the year 2006 amounting to YTL 769,730 is decided to be distributed as legal reserves in the amount of YTL 76,973, as extraordinary reserves in the amount of YTL 256,892 and as dividend in the amount of YTL 435,865 of which YTL 51,000 was recorded as provision for dividend to employees as of and for the year ending 31 December 2006.

The retained earnings amounting to YTL 610,307 include legal reserves amounting to YTL 207,726 in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

As at 30 June 2007 net minority interest amounts to YTL 268,636 (31 December 2006: YTL 268,336).

*Minority interest* is detailed as follows:

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Capital and other reserves | 346,618 | 341,953 |
| Retained earnings | (76,800) | (101,137) |
| Current period net income | (1,182) | 27,520 |
| **Total minority interest** | **268,636** | **268,336** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 21. Shareholders equity *(continued)*

*Revaluation of available-for-sale financial assets is detailed as follows:*

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| Balance at the beginning of the period | 54,049 | 276,164 |
| Net gains/(losses) from changes in fair value | 60,371 | (546,989) |
| Related deferred and current income taxes | (12,074) | 109,398 |
| Net (gains)/losses transferred to the income statement on disposal and impairment | (18,473) | (216,706) |
| Related deferred and current income taxes | 3,695 | 43,341 |
| **Balance at the end of the period** | **87,568** | **(334,792)** |

## 22. Related parties

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 financial and operating decisions. For the purpose of these consolidated financial information, shareholders and Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted some business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

*Outstanding balances*

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Non-cash loans | 6,393 | 7,306 |
| Deposits taken | 7,787 | 4,702 |

*Transactions*

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| Interest expense | (341) | (15) |
| Other operating income | 38 | 44 |
| Other operating expense | 365 | 302 |

*Directors' Remuneration*

The key management and the members of the Board of Directors received remuneration and fees amounting to YTL 3,506 for the six-month period ended 30 June 2007 (30 June 2006: YTL 3,286).

*(Currency – Thousands of New Turkish Lira (YTL))*

## 23. Other Income

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| Earned Premiums | 140,887 | 130,180 |
| Written premium | 190,021 | 146,888 |
| Change in unearned premium reserve | (49,134) | (16,708) |
| Corrections to previous year expenses | 33,524 | 61,446 |
| Income from sale of fixed assets | 29,928 | 5,235 |
| Excess fee charged to customers for communication expenses | 21,135 | 16,303 |
| Income from associates | 9,522 | 49,141 |
| Pension business income | 4,260 | 3,148 |
| Rent income | 1,924 | 3,481 |
| Other | 29,030 | 33,248 |
| **Total** | **270,210** | **302,182** |

## 24. Salaries and employee benefits

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | (119,526) | (106,072) |
| Cost of defined contribution plan (employer's share of social security premiums) | (3,347) | (2,812) |
| Other fringe benefits | (115,894) | (89,571) |
| Provision for employee termination benefits and liability for unused vacations | (9,669) | (5,278) |
| **Total** | **(248,436)** | **(203,733)** |

The average number of employees during the period is:

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| The Bank | 7.783 | 7.240 |
| Subsidiaries | 1.376 | 1.286 |
| **Total** | **9.159** | **8.526** |

*(Currency – Thousands of New Turkish Lira (YTL))*

## 25. Other expenses

| | 30 June 2007 | 30 June 2006 |
|---|---|---|
| Insurance claims paid | (112,304) | (98,513) |
| Rent expenses | (26,203) | (17,452) |
| Life mathematical provision | (22,858) | (18,965) |
| Operating lease charges | (22,457) | (17,722) |
| Communication expenses | (19,727) | (15,873) |
| Advertising expenses | (14,710) | (15,166) |
| Saving Deposit Insurance Fund premium | (14,060) | (11,600) |
| Corrections to previous year income | (10,870) | (29,307) |
| Office supplies | (9,125) | (3,749) |
| Other provision expenses | (8,841) | (32,701) |
| Pension business expenses | (7,399) | (7,411) |
| Cleaning service expenses | (6,918) | (8,405) |
| Change in outstanding claims provision | (5,990) | (12,653) |
| Energy expenses | (5,903) | (4,712) |
| Maintenance expenses | (5,883) | (4,877) |
| Hosting expenses | (4,843) | (4,223) |
| Computer usage expenses | (4,930) | (4,806) |
| Chartered accountants | (3,974) | (4,208) |
| BRSA participation fee | (3,774) | (3,522) |
| Transportation expenses | (3,053) | (3,833) |
| Donations | (1,359) | (12,707) |
| Loss on sale of assets | (901) | (20,643) |
| Other various administrative expenses | (86,189) | (14,292) |
| **Total** | **(402,271)** | **(367,340)** |

## 26. Commitment and contingencies

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Letters of guarantee | 3,632,548 | 3,400,879 |
| Letters of credit | 1,025,843 | 1,227,088 |
| Acceptance credits | 326,987 | 152,842 |
| Other guarantees | 4,083 | 12,819 |
| Total non-cash loans | 4,989,461 | 4,793,628 |
| Credit card limit commitments | 2,163,565 | 1,611,354 |
| Other commitments | 1,268,150 | 1,861,158 |
| **Total** | **8,421,176** | **8,266,140** |

*Pending tax audits:*

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

*(Currency – Thousands of New Turkish Lira (YTL))*

## 27. Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 30 June 2007:

| *Affiliates* | *Shareholding Interest (%)* |
|---|---|
| Güneş Sigorta AŞ | 35.35 |
| Vakıf Emeklilik AŞ | 74.93 |
| Vakıf Enerji ve Madencilik AŞ | 84.87 |
| Taksim Otelcilik AŞ | 51.51 |
| Vakıf Finans Factoring Hizmetleri AŞ | 86.53 |
| Vakıf Finansal Kiralama AŞ | 64.24 |
| Vakıf Deniz Finansal Kiralama AŞ | 73.85 |
| Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ | 21.63 |
| Vakıf Yatırım Menkul Değerler AŞ | 99.42 |
| Vakıfbank International AG | 90.00 |
| World Vakıf Offshore Banking Ltd. | 84.92 |
| Kıbrıs Vakıflar Bankası Ltd. | 15.00 |
| Vakıf Gayrimenkul Yatırım Ortaklığı AŞ | 29.45 |
| VB Diversified Payment Rights Finance Company | - (*) |

*(*) VB Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions. The Bank or any of its affiliates does not have any shareholding interest in this company.*

*Vakıf International AG*, has been established in 1999 to operate in banking sector in foreign countries, in line with the Bank's globalization policy. The head office of Vakıf International AG is in Vienna.

*World Vakıf Offshore Banking Ltd.*, has been established in Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia.

*Vakıf Finansal Kiralama AŞ*, has been established in 1988 to enter into financial lease operations and make related transactions and contracts. The head office of the financial institution is in Istanbul.

*Vakıf Deniz Finansal Kiralama AŞ,* has been established in 1993 to enter into finance lease operations through the acquisition of vessels like cargo and ro-ro ships and make related transactions and contracts. The head office of the Company is in Istanbul.

*Güneş Sigorta AŞ*, has been established under the leadership of the Bank and Soil Products Office in 1957. The Company has been operating in all insurance branches like fire, accident, transaction, engineering, agriculture, health, forensic protection, and loan insurance. The head office of the Company is in Istanbul.

*Vakıf Emeklilik AŞ*, has been established under the name Güneş Hayat Sigorta AŞ in 1992. In 2002 the Company has taken conversion permission from Treasury and started to operate in private pension system. The head office of the Company is in Istanbul.

*Vakıf Finans Factoring Hizmetleri AŞ*, has been established in 1998 to perform factoring transactions. The head office of the Company is in Istanbul.

## 27. Affiliates and associates (continued)

*Vakıf Gayrimenkul Yatırım Ortaklığı AŞ*, has been established as the first real estate investment partnership in finance sector under the adjudication of Capital Markets Law in 1996. The Company's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts like, real estates, capital market tools based on real estates, real estate projects and investment on capital market tools. The head office of the Company is in Ankara.

*Vakıf Yatırım Menkul Değerler AŞ*, has been established in 1996 to provide service to investors through making capital markets transactions, issuance of capital market tools, commitment of repurchase and sales, and purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy, and portfolio management. The head office of the Company is in Istanbul.

*Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ*, was established in 1991 in Istanbul. The main operation of the Company is to invest a portfolio including marketable debt securities, equity securities without having managerial power in the partnerships whose securities have been acquired; and gold and other precious metals traded in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. The head office of the Company is in Istanbul.

*Kıbrıs Vakıflar Bankası Ltd. Şti.*, was established in 1982 in Turkish Republic of Northern Cyprus, mainly to encourage the credit cards issued by the Bank, and increase foreign exchange inflow, and carry on retail and commercial banking operations. The head office of the bank is in Nicosia.

## 28. Significant events

The monetary losses amounting YTL 379,000 incurred by the Bank in the 2001 financial year as a result of the inflation accounting applied in compliance with the Temporary article no.4 added to the Banks Law no.4389 through the Law no.4743, were net off with extraordinary reserves, legal reserves and capital reserves from inflation adjustments to equity items. As per the Temporary article no.4/13 of the same Law and the statements of the reiterated article 14/1a of the Corporate Tax Law no.5422, these losses have not been taking into account in the tax returns of the year 2001 and subsequent years, whereas such losses should have been deducted from the taxable income. On 19 December 2006, the Bank has demanded the amount paid due to loss in the amount of YTL 379,000 by presenting corrected tax returns for the years 2002, 2003, and 2004. Following the rejection of this condition by the tax office, the Bank appealed to the tax court on 22 February 2007. However, as of the reporting date, the judgment process is not finalized yet and continues.

## 29. Subsequent events

On 13 July 2007, the Bank has obtained syndication loan of US Dollar 700 million having one year maturity and Libor+0.475% interest rate, with the participation of 29 international banks through club deal.