Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
and Its Subsidiaries

Consolidated Interim Financial Information
As at 30 June 2008
Together With
Independent Auditors' Review Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

12 September 2008

This report includes "report on review of consolidated interim financial information" comprising 1 page and; "financial statements together with their explanatory notes" comprising 66 pages.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

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Report on Review of Consoldiated 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 at 30 June 2008 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.

We did not review the financial statements of certain consolidated companies as at 30 June 2008, which statements reflect total assets constituting 5.88 percent; and total operating income constituting 7.78 percent as at and for the six-month period ended 30 June 2008 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 2410 – *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. 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 at 30 June 2008, 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
12 September 2008

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Balance Sheet
As at 30 June 2008
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	30 June 2008	31 December 2007
ASSETS			
Cash and balances with the Central Bank	6	382,13	423,592
Financial assets at fair value through profit or loss	7	396,21	458,018
Receivables from reverse repurchase agreements	8	-	715,835
Loans and advances to banks	9	4,100,66	2,889,152
Loans and advances to customers	10,11	28,802,28	24,122,032
Investment securities	12	12,175,23	11,153,188
Investment in equity participations	13	92,03	114,406
Property and equipment	14	877,05	851,212
Intangible assets	14	23,76	14,958
Deferred tax assets	20	74,93	34,500
Other assets	15	3,558,95	3,458,604
Total assets		**50,483,29**	**44,235,497**
LIABILITIES AND EQUITY			
Deposits from banks	16	544,43	751,566
Deposits from customers	17	34,560,68	28,291,732
Obligations under repurchase agreements	8	1,882,81	2,153,435
Funds borrowed	18	5,458,07	5,159,843
Other liabilities and provisions	19	2,202,35	2,149,425
Current tax liabilities	20	56,58	84,017
Deferred tax liabilities	20	5,95	5,861
Total liabilities		**44,710,91**	**38,595,879**
Share capital		3,300,14	3,300,146
Fair value reserves of available-for-sale financial assets	21	(149,41	126,725
Share premium		724,32	724,320
Revaluation surplus		14,72	14,282
Currency translation adjustment		39,73	30,905
Retained earnings	21	1,557,67	1,173,434
Total equity attributable to equity holders of the Bank		**5,487,18**	**5,369,812**
Minority interest	21	**285,20**	**269,806**
Total equity		**5,772,38**	**5,639,618**
Total liabilities and equity		**50,483,29**	**44,235,497**
Commitments and contingencies	26	**13,705,01**	**11,971,367**

The notes on pages 6 to 66 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Income
For the Six-Month Period Ended 30 June 2008
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	30 June 2008	30 June 2007
Interest income			
Interest on loans and receivables		1,993,080	1,540,759
Interest on securities		831,110	810,329
Interest on deposits with banks		158,004	189,099
Interest on money market placements		37,690	113,446
Other interest income		20,300	9,574
Total interest income		**3,040,184**	**2,663,207**
Interest expense			
Interest on deposits		(1,791,852)	(1,593,764)
Interest on money market deposits		(108,088)	(69,830)
Interest on funds borrowed		(127,761)	(132,669)
Other interest expense		(27,558)	(10,840)
Total interest expense		**(2,055,259)**	**(1,807,103)**
Net interest income		**984,925**	**856,104**
Fees and commission income		337,397	269,092
Fees and commission expense		(113,128)	(115,334)
Net fees and commission income		**224,269**	**153,758**
Other operating income			
Trading income, (net)	7	15,886	47,589
Foreign exchange gain, (net)		25,206	68,156
Other income	23	284,969	270,210
Total other operating income		**326,061**	**385,955**
Other operating expense			
Salaries and employee benefits	24	(319,745)	(248,436)
Provision for possible loan losses, net off recoveries		160	(89,042)
Depreciation and amortization	14	(47,628)	(42,503)
Taxes other than on income		(18,997)	(17,970)
Other expenses	25	(479,972)	(402,271)
Total other operating expense		**(866,182)**	**(800,222)**
Profit from operations		**669,073**	**595,595**
Income tax expense	20	(122,115)	(111,094)
Net profit for the period		**546,958**	**484,501**
Net profit for the period attributable to:			
Equity holders of the Bank		526,441	485,683
Minority interest	21	20,517	(1,182)
Earning per share (full YTL)		0.2188	0.1938

The notes on pages 6 to 66 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
For the Six-Month Period Ended 30 June 2008
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	Share capital	Fair value reserves of available-for-sale financial assets	Share premium	Revaluation surplus	Currency translation adjustment	Retained earnings	Minority	Total equity
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		-	-	-	-	-	(384,865)	(3,183)	(388,048)
Net profit for the period		-	-	-	-	-	485,683	(1,182)	484,501
Balances at 30 June 2007		**3,300,146**	**87,568**	**724,320**	**15,948**	**32,745**	**610,307**	**268,636**	**5,039,670**
Balances at 1 January 2008		**3,300,146**	**126,725**	**724,320**	**14,282**	**30,905**	**1,173,434**	**269,806**	**5,639,618**
Increase in revaluation surplus		-	-	-	442	-	-	502	944
Net market value losses from available-for-sale financial assets	21	-	(276,140)	-	-	-	-	(952)	(277,092)
Currency translation adjustment for foreign operations		-	-	-	-	8,825	-	955	9,780
Dividends paid	21	-	-	-	-	-	(142,200)	(5,624)	(147,824)
Net profit for the period		-	-	-	-	-	526,441	20,517	546,958
Balances at 30 June 2008		**3,300,146**	**(149,415)**	**724,320**	**14,724**	**39,730**	**1,557,675**	**285,204**	**5,772,384**

The notes on pages 6 to 66 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Cash Flows
For the Six-Month Period Ended 30 June 2008
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	30 June 2008	30 June 20
Cash flows from operating activities:			
Net profit for the period		546,958	484,5
Deferred taxation	20	(10,478)	(18,32
Provision for possible loan losses	10,19	(160)	89,0
Depreciation and amortization	14	47,628	42,5
Provision for retirement pay liability and unused vacations	24	13,235	9,6
Provision for short term employee benefits	25	35,100	34,0
Unearned premium reserve	23	29,493	49,1
Provision for outstanding claims	25	4,600	5,9
Life mathematical provisions	25	(22,499)	22,8
Other provision expenses	25	15,371	8,8
Operating profit before changes in operating assets and liabilities		**659,248**	**728,268**
Changes in operating assets and liabilities:			
Loans and advances to banks		(162,586)	(39,49
Reserve deposits		(1,960)	(97,70
Financial assets at fair value through profit or loss		48,028	17,4
Loans and advances to customers		(4,680,092)	(906,43
Derivative financial instruments		6,712	(24,98
Other assets		(76,084)	(264,34
Deposits from banks		(207,129)	(279,141
Deposits from customers		6,268,950	1,209,6
Obligation under repurchase agreements		(270,617)	826,8
Other liabilities and provisions		(6,110)	48,685
Current tax liabilities		(27,430)	(20,305
Cash used in operating activities		**891,682**	**470,242**
Cash flows from investing activities:			
Purchase of property and equipment	14	(81,700)	(61,480
Proceeds from the sale of property and equipment		15,101	22,581
Purchase of intangible assets	14	(10,654)	(1,790
Proceeds from the sale of intangible assets		49	1,579
Proceeds from sale of equity participations		-	6,600
Net (increase)/decrease in investment securities		(1,332,497)	(630,545
Cash (used in)/provided by investing activities		**(1,409,701)**	**(663,055**
Cash flows from financing activities:			
Net (decrease)/increase in funds borrowed		298,235	193,716
Dividends paid		(147,824)	(388,048
Cash (used in)/provided by financing activities		**150,411**	**(194,332**
Net decrease in cash and cash equivalents		291,640	341,123
Cash and cash equivalents at the beginning of the year	6	3,952,761	4,695,
Cash and cash equivalents at the end of the year	6	**4,244,401**	**5,036,**
Interest paid		(2,112,393)	(1,787,75
Interest received		2,995,442	2,668,0
Income taxes paid		127,523	149,7

The notes on pages 6 to 66 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements:

1. Overview of the Bank

(a) Brief History

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("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 495 domestic branches and 2 foreign branches in New York and Bahrain. In addition to its branches, the Bank has two banks which are located in Austria and Turkish Republic of Northern Cyprus. As at 30 June 2008, the Bank has 9,495 (31 December 2007: 8,700) 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 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.

Overview of the Bank *(continued)*

On 19 December 2006, the Bank's statutory nominal 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 7,794 from revaluation fund, and YTL 4,738 from other profit reserves. The Bank's capital share is divided into 2.500.000.000 shares with each has a nominal value of 1 New Turkish Lira ("YTL").

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
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402.552.666	402,553	16.10
Foundations (Group B)	386.224.785	386,225	15.45
Other foundations (Group B)	4.681.052	4,681	0.19
Individuals and legal entities (Group C)	1.875.293	1,875	0.08
Publicly traded (Group D)	629.607.564	629,607	25.18
Total	**2.500.000.000**	**2,500,000**	**100.00**

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 YTL in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey, 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 ("IFRSs").

The consolidated financial statements were authorized by the Bank management on 12 September 2008.

(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 values if reliable measures are available: derivative financial instruments, financial assets held for trading purpose, available-for-sale financial assets and assets held for resale.

(c) Functional currency and presentation currency

These consolidated financial statements are presented in YTL, which is the Bank's functional currency. Except as indicated, financial information presented in YTL has been rounded to the nearest thousand.

Basis of preparation *(continued)*

(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 years 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 capital and money 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 year in which the estimate is revised and in any future years 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 4 – Financial risk management
- Note 10 – Loans and advances to customers
- Note 11 – Finance lease receivables
- Note 13 – Investment in equity participations
- Note 19 – Other liabilities and provisions including insurance contract liabilities
- Note 20 – Income taxes

Changes in estimates in the current period

While the Bank has recorded specific provision with a percentage of 100 without taking the related collaterals into consideration till the end of 31 December 2007 for the loans graded with six, seven and eight, the Bank has started to record specific provision with a percentage of 20, for the loans graded with six, without taking the related collaterals into consideration starting from 31 March 2008. As a result of this change in its specific provision policy, the Bank recognized gain amounting to YTL 54,147, net off taxes due to reversal of the provisions reserved as at 31 December 2007, in the consolidated statement of income.

3. Significant accounting policies

(a) Basis of consolidation

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 the subsidiaries 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 subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries' 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 subsidiaries' 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 subsidiaries has incurred obligations in respect of the associate.

Special purpose entities

Special purpose entities are the 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

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company 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 subsidiaries' 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 World 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 consolidated statement of income as foreign exchange gain or loss.

Foreign operations

The functional currencies of the foreign subsidiaries, World 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 consolidated 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 rate basis
- interest earned till the disposal of financial assets at fair value through profit or loss

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 at fair value through profit or loss, available-for-sale financial assets, and gains and losses on derivative transactions held for trading purpose.

(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 the statement of income on a straight-line basis 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.

(h) Income taxes

Corporate tax

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. 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.

Significant accounting policies *(continued)*

Income taxes *(continued)*

Corporate tax *(continued)*

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 taxes for the Group’s consolidated subsidiary 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.

Deferred 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 consolidated 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.

Transfer Pricing Regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible.

Significant accounting policies *(continued)*

(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 and derivative financial instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets 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 Group provides 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 securities.

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 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 subordianted liabilities are recognized on the date they are originated.

Measurement

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

Subsequent to initial recognition, all financial assets 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.

Significant accounting policies *(continued)*

Financial instruments *(continued)*

Fair value measurement principles *(continued)*

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.

Gains and losses arising from a change in the fair value of available-for-sale financial assets 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, held-to-maturity securities and financial assetes at fair value through profit or loss 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 at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at 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 date they are transferred by the Group.

Specific instruments

Cash and balances with the Central Bank: Cash and balances with the Central Bank comprise cash balances on hand, cash deposited with the Central Bank 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 subsidiaries 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 subsidiaries 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 finance 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 the loans and receivables.

Significant accounting policies *(continued)*

Financial instruments *(continued)*

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 loans and receivable to their recoverable amounts. In assessing the recoverable amounts of loans and receivables, the estimated future cash flows are discounted to their present value. Increases in the allowance account are recognized in the statement of income. When a 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 re measured 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 the statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to statement of income, when related asset is derecognized.

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 amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

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

Significant accounting policies *(continued)*

(j) Property and equipment

The cost of the property and equipment 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 property and equipment purchased after this date are recorded at their historical costs. The inflation adjustment of the property and equipment 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. Property and equipment 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 property and equipment are calculated as the difference between the net book value and the net sales price.

Maintenance and repair costs incurred for property and equipment are recorded as expense.

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

Depreciation rates and estimated useful lives are:

Property and equipment	**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	4-5	20-25

Property and equipment are depreciated based on the straight line method.

As of each reporting date, the Group firms assess 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 the 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 straight line amortization.

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.

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

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 and post-retirement medical benefits to all qualified Bank employees. The Fund is a defined benefit plan ("the 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. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	8.0	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008. The actual date of the transfer has not been specified yet.

Pension and medical benefits transferable to SSF:

As per the provisional Article no.23 of the Turkish Banking Law no.5411 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 SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

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

Significant accounting policies *(continued)*

Employee benefits *(continued)*

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

The Bank obtained an actuarial report dated 29 May 2008 from an independent actuary in accordance with *IAS 19 Employee Benefits*. The actuarial balance sheet of the Fund has been prepared using a certain discount rate and mortality table, and the assets of the Plan exceed the present value of defined benefit obligation at 31 December 2007.

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 subsidiaries 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 2.09 and YTL 2.03 at 30 June 2008 and 31 December 2007, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008	**31 December 2007**
	%	**%**
Discount rate	5.71	5.71
Expected rate of salary/limit increase	5.00	5.00
Turnover rate to estimate the probability of retirement	0.84	0.51

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

Significant accounting policies *(continued)*

(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.

(s) Financial guarantee contracts

Financial guarantees are contracts that require the Bank and its subsidiaries 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).

Significant accounting policies *(continued)*

(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 written in prior periods, taxes and premium ceded to reinsurer firms. Premiums written are presented under other operating income in the accompanying consolidated statement of income.

Reserve for unearned premiums: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the balance sheet date for all short- term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, reserve for unearned premiums set aside for unexpired risks as at the balance sheet dates, has been computed on daily pro-rata basis. The change in the reserve for unearned premiums is recognized in the statement of income in the order that revenue is recognized over the period of risk.

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. Provision for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the balance sheet date as well as the corresponding handling costs. Incurred but not reported claims (“IBNR”) are also provided for under claims provision.

Life mathematical provisions: Life mathematical provisions are the difference between the net present values of premiums collected in return of the risk covered by the Group and the liabilities to policyholders. Life mathematical provision is the sum of the remainder of collected premiums and accumulated life insurance provision. Life mathematical provision is computed on the basis of actuarial mortality assumptions as approved by the Insurance Department of the Republic of Turkey Prime Ministry Undersecretariat of Treasury (“the Turkish Treasury”), which are applicable for Turkish insurance companies.

Life mathematical provision also includes the liability of the Group for investment contracts that contain discreationary participation feature. The Group has saving life insurance policies with regular and single premium payments. Premiums received for such contracts are recognized directly as liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. These contracts entitles the holders to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Company from the eligible surplus available to date.

Life – profit share reserve: Life profit share is the portion of investment income allocated to the 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. Life profit share is included in life mathematical provisions.

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.

Significant accounting policies *(continued)*

Insurance contracts *(continued)*

Liability adequacy test: The Group applies adequacy test covering last 12 months while providing reserve for unearned premiums for the probability of claims and compensations that will be appeared in the future for the outstanding policies being higher than reserve for unearned premiums already provided. While applying this test, reserve for unearned premiums, net is multiplied with expected claim/premium ratio. Expected claim/premium ratio is calculated by dividing incurred losses (provision for outstanding claims, net at the end of the period + claims paid, net – provision for outstanding claims, net at the beginning of the period) to earned premiums (written premiums, net + reserve for unearned premiums, net at the beginning of the period – reserve for unearned premiums, net at the end of the period).

Private pension system: Private pension system receivables mainly consist of termed participation fees received for the entrance to the system, the capital advances made to pension investment funds, fund management fee receivables from funds and receivables from the pension investment funds on behalf of the participants. At the same time, receivables from the pension investment funds is presented in the private pension system payables account as payables to participants for funds sold.

(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 year 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 subsidiaries 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 2008, 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 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.

- IFRS 3 – *Business Combinations &* IAS 27 – *Consolidated and Separate Financial Statements*; the International Accounting Standards Board ("IASB") has completed the second phase of its business combinations project by issuing a revised version of IFRS 3 – *Business Combinations* and an amended version of IAS 27 – *Consolidated and Separate Financial Statements* which also brings revisions to IAS 28 – *Investments in Associates* and IAS 31 – *Interest in Joint Ventures*. The new requirements take effect on 1 July 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements.

- IAS 32 – *Financial Instruments: Presentation*; the IASB amended IAS 32 and IAS 1 – *Presentation of Financial Statements* with respect to the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity. Amendments for puttable financial instruments and obligations arising only on liquidation, effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- IAS 23 – *Borrowing Costs;* on 29 March 2007, the IASB issued a revised IAS 23. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such assets. The revised IAS 23 does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- 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 July 2008, is not expected to have any impact on the consolidated financial statements of the Group.

Significant accounting policies *(continued)*

New standards and interpretations not yet adopted *(continued)*

- IFRIC 15 – *Agreements for the Construction of Real Estate* provides guidance on how to determine whether an agreement for the construction of real estate within the scope of IAS 11 – *Construction Contracts* or IAS 18 – *Revenue* and, accordingly, when revenue from the construction should be recognized. IFRIC 15, effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.
- IFRS 2 – *Share based payments;* on 17 January 2008, the IASB published final amendments to IFRS 2 to clarify the terms “vesting conditions” and “cancellations” as follows:

  -Vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Under IFRS 2, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. The fair value also includes market-related vesting conditions.

  -All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognized that would otherwise have been charged is recognized immediately. Any payment made with the cancellation is accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognized as an expense.

  The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- Revised “IAS 1 – *Presentation of Financial Statements*”, issued on 6 September 2007 by IASB. Main changes from the previous version are to require that an entity must

  - Present all non-owner changes in equity either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity.

  - Present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement.

  - Disclose income tax relating to each component of other comprehensive income.

  - Disclose reclassification adjustments relating to components of other comprehensive income.

  IAS 1 changes the titles of financial statements as they will be used in IFRSs:

  - 'balance sheet' will become 'statement of financial position'

  - 'income statement' will become 'statement of comprehensive income'

  - 'cash flow statement' will become 'statement of cash flows').

  The revised IAS 1 will be applicable starting from 1 January 2009.

Significant accounting policies *(continued)*

New standards and interpretations not yet adopted *(continued)*

- IFRIC 16 – *Hedge of a Net Investment in a Foreign Operation* clarifies;

  - IFRIC 16 concludes that the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation

  - IFRIC 16 concludes that the hedging instrument(s) may be held by any entity or entities within the group.

  - IFRIC 16 concludes that while IAS 39 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 must be applied in respect of the hedged item.

  IFRIC 16, effective for annual periods beginning on or after 1 October 2008, is not expected to have any impact on the consolidated financial statements of the Group.

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 submitting 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 expose to credit risk (inc. financial assets other than loans and advances to customers)**	
	30 June 2008	**31 December 2007**	**30 June 2008**	**31 December 2007**
Individually impaired	1,347,695	1,244,131	10,859	6,237
Allowance for impairment	(1,247,770)	(1,243,662)	(9,014)	(4,505)
Carrying amount	**99,925**	**469**	**1,845**	**1,732**
Collectively impaired	-	-	-	-
Allowance for impairment	-	-	-	-
Carrying amount	**-**	**-**	**-**	**-**
Past due but not impaired	1,331,387	573,747	-	-
Carrying amount	**1,331,387**	**573,747**	**-**	**-**
Neither past due nor impaired	27,141,933	23,348,080	19,674,640	18,200,870
Loans with renegotiated terms	229,039	199,736	-	-
Carrying amount	**27,370,972**	**23,547,816**	**19,674,640**	**18,200,870**
Total carrying amount	**28,802,284**	**24,122,032**	**19,676,485**	**18,202,602**

As at 30 June 2008 and 31 December 2007, the Group has no allowance for loans and advances to banks and investment securities.

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

Financial risk management *(continued)*

Credit risk *(continued)*

Sectoral distribution of the performing loans and advances to customers

	30 June 2008	31 December 2007
Consumer loans	7,068,850	6,012,036
Manufacturing	5,399,256	5,203,576
Transportation and telecommunication	2,625,220	2,464,082
Wholesale and retail trade	2,997,610	2,235,625
Construction	1,955,475	1,585,878
Financial institutions	1,000,197	938,582
Credit cards	550,016	561,420
Hotel, food and beverage services	816,910	384,187
Agriculture and stockbreeding	464,091	382,723
Health and social services	168,533	222,813
Others	5,656,201	4,130,641
Total performing loans and advances to customers	**28,702,359**	**24,121,563**

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.

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.

30 June 2008	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Grade 6 : Individually Impaired	152,493	94,454	-	-
Grade 7 : Individually Impaired	163,387	-	-	-
Grade 8 : Individually Impaired	1,031,815	5,471	10,859	1,845
Total	**1,347,695**	**99,925**	**10,859**	**1,845**

31 December 2007	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Grade 6 : Individually Impaired	68,815	-	-	-
Grade 7 : Individually Impaired	151,330	-	-	-
Grade 8 : Individually Impaired	1,023,986	469	6,237	1,732
Total	**1,244,131**	**469**	**6,237**	**1,732**

(*) Impaired insurance receivables consist of non-rated customers which are presented as “Grade 8” in above table.

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 2008 and 31 December 2007.

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

Cash loans	30 June 2008	31 December 2007
Secured loans:	20,927,569	17,705,269
Secured by cash collateral	9,050	6,118
Secured by mortgages	8,768,055	6,598,710
Secured by government institutions or government securities	42,024	161,984
Guarantees issued by financial institutions	97,484	99,006
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	12,010,956	10,839,451
Unsecured loans	7,774,790	6,416,294
Total performing loans and advances to customers	**28,702,359**	**24,121,563**

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

Financial risk management *(continued)*

Credit risk *(continued)*

Non-cash loans	30 June 2008	31 December 2007
Secured loans:	3,953,869	3,338,194
Secured by cash collateral	109,665	195,264
Secured by mortgages	1,115,550	1,003,575
Secured by government institutions or government securities	117	70
Guarantees issued by financial institutions	237,010	210,669
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,491,527	1,928,616
Unsecured loans	3,103,748	2,602,931
Total non-cash loans	**7,057,617**	**5,941,125**

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

	30 June 2008	31 December 2007
Cash collateral (*)	-	-
Mortgages	495,632	441,898
Promissory notes	1,206	7,190
Other	128,960	724,629
Total	**625,798**	**1,173,717**

(*) As a Bank policy, it is aimed to utilize from cash collateral or liquidate promissory note for an impaired loan which is previously collateralized by cash collateral or promissory note to cover the credit risk. Hence, cash collateral amount is shown as zero in the table above.

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries 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 2008	31 December 2007
Service sector	144,804	54,294
Construction	131,875	95,637
Food	127,731	93,591
Durable consumption	125,233	91,359
Textile	119,259	110,724
Financial institutions	35,284	948
Consumer loans	14,130	54,497
Agriculture and stockbreeding	10,185	14,050
Metal and metal products	12,107	11,108
Other	627,087	717,923
Total non-performing loans and advances to customers	**1,347,695**	**1,244,131**

	30 June 2008	31 December 2007
Turkey	1,345,220	1,241,823
Austria	2,475	2,308
Total non-performing loans and advances to customers	**1,347,6**	**1,244,1**

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 (not including consolidated subsidiaries). 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.

The Bank’s banking subsidiary 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.

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

Financial risk management *(continued)*

Liquidity risk *(continued)*

Residual contractual maturities of the financial liabilities

30 June 2008	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	544,437	546,576	760	500,305	45,511	-	-	-
Deposits from customers	34,560,682	34,888,523	5,586,852	18,847,188	7,249,325	2,348,051	856,516	591
Obligations under repurchase agreements	1,882,818	2,317,997	-	154,492	-	637,229	1,526,276	-
Funds borrowed	5,458,078	6,508,145	4,816	1,021,010	195,904	1,086,102	795,296	3,405,017
Other liabilities and provisions	1,738,871	1,738,871	877,308	466,279	206,443	93,220	64,547	31,074
Current tax liabilities	56,587	56,587	-	-	56,587	-	-	-
Total	**44,241,473**	**46,056,699**	**6,469,736**	**20,989,274**	**7,753,770**	**4,164,602**	**3,242,635**	**3,436,682**

31 December 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	751,566	757,403	1,224	729,545	26,471	163	-	-
Deposits from customers	28,291,732	28,665,689	3,528,509	14,782,414	8,132,844	1,485,831	735,976	115
Obligations under repurchase agreements	2,153,435	2,571,784	-	195,467	115,961	776,181	1,201,842	282,333
Funds borrowed	5,159,843	5,771,031	168	35,152	56,830	1,814,408	1,139,330	2,725,143
Other liabilities and provisions	1,761,755	1,761,756	919,348	398,285	44,962	221,512	143,093	34,555
Current tax liabilities	84,017	84,017	-	-	-	84,017	-	-
Total	**38,202,348**	**39,611,680**	**4,449,249**	**16,140,863**	**8,377,068**	**4,382,112**	**3,220,241**	**3,042,146**

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.

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

Financial risk management *(continued)*

(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.

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 at 30 June 2008 and 31 December 2007 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 2008			**31 December 2007**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	103,420	113,111	93,729	22,459	30,047	12,200
Common share risk	1,071	1,124	1,017	737	2,084	135
Currency risk	12,759	15,721	9,797	19,463	24,682	10,218
Option risk	-	-	-	-	-	-
Total value at risk	**1,465,619**	**1,624,450**	**1,306,788**	**533,228**	**675,163**	**417,775**

(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 2008	Less than one month	1-3 months	3-12 months	1-5 year	Over 5 year	Non-interest	Carrying amount
Cash and balances with the Central Bank	-	-	-	-	-	382,137	382,137
Loans and advances to banks	3,691,446	106,639	99,665	2,299	3,846	196,773	4,100,668
Loans and advances to customers	7,937,200	9,603,772	4,539,914	4,563,561	2,057,912	99,925	28,802,284
Investment securities	1,966,786	3,645,016	3,145,625	2,077,127	1,339,537	1,146	12,175,237
Other assets	2,096,006	3,793	9,679	85,602	85,006	629,388	2,909,474
Total assets	**15,691,438**	**13,359,220**	**7,794,883**	**6,728,589**	**3,486,301**	**1,309,369**	**48,369,800**
Deposits from banks	498,814	44,863	-	-	-	760	544,437
Deposits from customers	18,652,544	7,172,706	2,319,611	828,536	434	5,586,851	34,560,682
Obligations under repurchase agreements	459,347	291,559	349,214	782,698	-	-	1,882,818
Funds borrowed	1,896,427	1,990,147	1,375,304	159,941	31,443	4,816	5,458,078
Other liabilities and provisions	3,719	5,868	22,723	64,530	31,042	1,610,989	1,738,871
Current tax liabilities	-	-	-	-	-	56,587	56,587
Total liabilities	**21,510,851**	**9,505,143**	**4,066,852**	**1,835,705**	**62,919**	**7,260,003**	**44,241,473**
Net	**(5,819,413)**	**3,854,077**	**3,728,031**	**4,892,884**	**3,423,382**	**(5,950,634)**	**4,128,327**

31 December 2007	Less than one month	1-3 months	3-12 months	1-5 year	Over 5 year	Non-interest	Carrying amount
Cash and balances with the Central Bank	-	-	-	-	-	423,592	423,592
Receivables from reverse repurchase agreements	715,835	-	-	-	-	-	715,835
Loans and advances to banks	2,648,427	47,958	9,433	927	-	182,407	2,889,152
Loans and advances to customers	9,412,927	3,758,167	5,522,492	3,638,367	1,777,935	12,144	24,122,032
Investment securities	1,393,166	3,050,880	3,251,265	2,226,118	1,230,138	1,621	11,153,188
Other assets	2,101,485	3,539	22,038	75,694	1,062	692,700	2,896,518
Total assets	**16,271,840**	**6,860,544**	**8,805,228**	**5,941,106**	**3,009,135**	**1,312,464**	**42,200,317**
Deposits from banks	723,911	26,269	162	-	-	1,224	751,566
Deposits from customers	14,650,211	7,918,043	1,461,965	722,083	104	3,539,326	28,291,732
Obligations under repurchase agreements	598,910	114,672	667,547	772,306	-	-	2,153,435
Funds borrowed	1,340,783	2,835,961	812,901	139,862	30,168	168	5,159,843
Other liabilities and provisions	129,422	3,504	5,741	5,114	-	1,617,974	1,761,755
Current tax liabilities	-	-	-	-	-	84,017	84,017
Total liabilities	**17,443,237**	**10,898,449**	**2,948,316**	**1,639,365**	**30,272**	**5,242,709**	**38,202,348**
Net	**(1,171,397)**	**(4,037,905)**	**5,856,912**	**4,301,741**	**2,978,863**	**(3,930,245)**	**3,997,969**

(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 six-month period ended 30 June 2008 and for the year ended 31 December 2007:

30 June 2008	US Dollar %	EUR %	YTL %
Cash and balances with the Central Bank	1.00	1.80	12.18
Loans and advances to banks	3.44 - 4.75	3.84 - 4.29	15.47 - 20.00
Loans and advances to customers	4.68 - 7.00	5.95 - 7.98	19.46 - 20.34
Investment securities	5.00 - 9.06	4.88 - 6.86	16.40 - 20.01
Deposits from banks	2.48 - 3.21	4.47 - 5.47	19.29
Deposits from customers	3.06 - 4.75	3.24 - 4.36	14.65
Obligations under repurchase agreements	3.35	4.3 - 5.02	18.09
Funds borrowed	3.34 - 5.86	4.99 - 6.04	13.00 - 17.64

31 December 2007	US Dollar %	EUR %	YTL %
Cash and balances with the Central Bank	1.95	1.80	11.81
Loans and advances to banks	4.00 - 4.69	3.67 - 4.17	16.74 - 18.75
Loans and advances to customers	6.84 - 8.50	5.95 - 8.50	15.00 - 20.49
Investment securities	6.34 - 9.34	4.71 - 6.86	16.98 - 19.50
Deposits from banks	4.52 - 5.19	4.92	18.03
Deposits from customers	3.73 - 4.75	3.30 - 4.00	15.15
Obligations under repurchase agreements	5.41	4.75 - 5.19	18.37
Funds borrowed	5.05 - 7.22	3.55 - 6.00	13.00 - 17.64

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

Financial risk management *(continued)*

Market risk *(continued)*

Interest rate sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the consolidated net interest income as at and for the six month period ended 30 June 2008, and effect of based on the floating rate non-trading financial assets and financial liabilities held at 30 June 2008. Interest rate sensitivity of equity is calculated by revaluing available-for-sale financial assets at 30 June 2008 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 30 June 2007.

	Profit or loss		**Equity (*)**	
30 June 2008	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(13,560)	14,442	(13,560)	14,442
Available-for-sale financial assets	-	-	(93,257)	96,878
Floating rate financial assets	97,103	(97,103)	97,103	(97,103)
Floating rate financial liabilities	(29,838)	29,838	(29,838)	29,838
Total, net	**53,705**	**(52,823)**	**(39,552)**	**44,055**

	Profit or loss		**Equity (*)**	
30 June 2007	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets 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	65,336	(65,336)	65,336	(65,336)
Floating rate financial liabilities	(25,481)	25,481	(25,481)	25,481
Total, net	**20,131**	**(17,392)**	**(154,381)**	**173,429**

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

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 statement of income except for foreign exchange gain/loss arising from the conversion of the net investments in associates and subsidiaries in foreign countries into YTL.

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

Financial risk management *(continued)*

Market risk *(continued)*

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.

30 June 2008	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and balances with the Central Bank	860,003	267,548	2,660	1,130,211
Financial assets at fair value through profit or loss	213,962	89,417	7	303,386
Loans and advances to banks	1,909,494	1,115,292	40,861	3,065,647
Loans and advances to customers	5,926,279	3,203,325	72,540	9,202,144
Investment securities	1,958,850	793,119	-	2,751,969
Property and equipment	507	1,372	-	1,879
Deferred tax assets	-	853	-	853
Other assets	287,051	180,479	2,854	470,384
Total assets	**11,156,146**	**5,651,405**	**118,922**	**16,926,473**
Deposits from banks	153,871	6,867	15	160,753
Deposits from customers	5,950,337	3,770,710	46,212	9,767,259
Obligations under repurchase agreements	452,074	503,223	-	955,297
Funds borrowed	3,960,659	1,251,510	53,124	5,265,293
Other liabilities and provisions	179,318	118,184	4,061	301,563
Total liabilities	**10,696,259**	**5,650,494**	**103,412**	**16,450,165**
Net on balance sheet position	**459,887**	**911**	**15,510**	**476,308**
Net off balance sheet position	**(409,307)**	**135,938**	**(9,910)**	**(283,279)**
Net long position	**50,580**	**136,849**	**5,600**	**193,029**

31 December 2007	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and balances with the Central Bank	25,855	249,821	3,013	278,689
Financial assets at fair value through profit or loss	228,056	99,943	5	328,004
Loans and advances to banks	1,612,209	357,004	59,854	2,029,067
Loans and advances to customers	4,760,774	2,509,903	76,522	7,347,199
Investment securities	2,191,276	786,046	-	2,977,322
Property and equipment	455	1,276	-	1,731
Deferred tax assets	-	125	-	125
Other assets	193,807	616,812	366	810,985
Total assets	**9,012,432**	**4,620,930**	**139,760**	**13,773,122**
Deposits from banks	181,889	76	154	182,119
Deposits from customers	3,219,412	3,254,055	50,337	6,523,804
Obligations under repurchase agreements	1,103,147	256,373	-	1,359,520
Funds borrowed	3,745,820	1,190,109	49,332	4,985,261
Other liabilities and provisions	171,844	105,765	17,168	294,777
Total liabilities	**8,422,112**	**4,806,378**	**116,991**	**13,345,481**
Net on balance sheet position	**590,320**	**(185,448)**	**22,769**	**427,641**
Net off balance sheet position	**(319,252)**	**305,256**	**(3,939)**	**(17,935)**
Net long position	**271,068**	**119,808**	**18,830**	**409,706**

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

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

Financial risk management *(continued)*

Market risk *(continued)*

In accordance with the agreements signed with the customers, the customers have to compensate the losses of the Bank due to decline in foreign exchange rates for the foreign currency indexed loans. Accordingly, as at 30 June 2008, foreign currency indexed loans amounting to YTL 291,516 (31 December 2007: YTL 407,657) results position for the Bank when foreign exchange rates increase.

Exposure to currency risk

A 10 percent devaluation of the YTL against the following currencies as at 30 June 2008 and 2007 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 2008		**30 June 2007**	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	10,802	6,725	9,280	13,007
EUR	6,572	6,999	(6,929)	(4,022)
Other currencies	867	867	2,083	2,083
Total, net	**18,241**	**14,591**	**4,434**	**11,068**

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

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 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 2008 and 2007 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

		30 June 2008	**30 June 2007**
	Change in index	**Equity**	**Equity**
ISE – 100 (IMKB100)	10%	5,070	8,271

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.

Financial risk management *(continued)*

Market risk *(continued)*

Fair value of loans and advances to customers is YTL 28,849,403 (31 December 2007: YTL 24,164,469), whereas the carrying amount is YTL 28,802,284 (31 December 2007: YTL 24,122,032) in the accompanying consolidated balance sheet as at 30 June 2008.

Fair value of security investments is YTL 12,136,841 (31 December 2007: YTL 11,163,719), whereas the carrying amount is YTL 12,175,237 (31 December 2007: YTL 11,153,188) in the accompanying consolidated balance sheet as at 30 June 2008.

(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 fourth section related to 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 2005, 2006 and 2007. The amount calculated as YTL 403,632 as at 30 June 2008 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 5,045,400.

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

Financial risk management *(continued)*

(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. 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 financial subsidiaries' 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, fair value reserves of available-for-sale financial assets and equity investments, 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 at 30 June 2008 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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 year.

The Bank's and its subsidiaries regulatory capital position on a consolidated basis at 30 June 2008 and 31 December 2007 was as follows:

	30 June 2008	31 December 2007
Tier 1 capital	5,595,537	5,234,715
Tier 2 capital	72,157	224,852
Deductions from capital	(501,784)	(534,226)
Total regulatory capital	5,165,910	4,925,341
Risk-weighted assets	32,897,334	28,066,520
Value at market risk	1,306,788	675,163
Operational risk	5,045,400	5,001,488
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.16	14.60
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	14.26	15.51

5. Segment reporting

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

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 has operations in Austria, Turkish Republic of Northern Cyprus, United States of America and Bahrain. As the operation results outside of Turkey are 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 2008	Retail Banking	Corporate Banking	Investment Banking	Other Operations	Total Banking	Insurance	Leasing	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating profit	114,324	191,778	890,356	70,302	1,266,760	244,849	5,988	6,210	13,117	18,156	1,555,080	(19,665)	1,535,415
Undistributed expenses	-	-	-	(634,067)	(634,067)	(218,843)	(3,792)	(1,247)	(5,959)	(11,947)	(875,855)	9,513	(866,342)
Operating profit	**114,324**	**191,778**	**890,356**	**(563,765)**	**632,693**	**26,006**	**2,196**	**4,963**	**7,158**	**6,209**	**679,225**	**(10,152)**	**669,073**
Profit before taxes	114,324	191,778	890,356	(563,765)	632,693	26,006	2,196	4,963	7,158	6,209	679,225	(10,152)	669,073
Income tax expense	-	-	-	(118,595)	(118,595)	(2,613)	(4)	(238)	(665)	-	(122,115)	-	(122,115)
Net profit for the period	**114,324**	**191,778**	**890,356**	**(682,360)**	**514,098**	**23,393**	**2,192**	**4,725**	**6,493**	**6,209**	**557,110**	**(10,152)**	**546,958**

30 June 2008	Retail Banking	Corporate Banking	Investment Banking	Other Operations	Total Banking	Insurance	Leasing	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Segment assets	7,816,513	22,802,789	16,346,240	1,817,212	48,782,754	1,291,303	347,326	99,844	110,273	226,498	50,857,998	(466,738)	50,391,260
Investments in associates and subsidiaries	-	-	-	589,880	589,880	73,499	7,329	6,160	8,725	5,949	691,542	(599,506)	92,036
Total assets	**7,816,513**	**22,802,789**	**16,346,240**	**2,407,092**	**49,372,634**	**1,364,802**	**354,655**	**106,004**	**118,998**	**232,447**	**51,549,540**	**(1,066,244)**	**50,483,296**
Segment liabilities	12,042,191	23,258,476	7,207,191	1,228,467	43,736,325	1,049,577	317,487	57,483	1,824	9,845	45,172,541	(461,629)	44,710,912
Shareholders’ equity and minority interest	-	-	-	5,636,309	5,636,309	315,225	37,168	48,521	117,174	222,602	6,376,999	(604,615)	5,772,384
Total Liabilities and Shareholders’ Equity	**12,042,191**	**23,258,476**	**7,207,191**	**6,864,776**	**49,372,634**	**1,364,802**	**354,655**	**106,004**	**118,998**	**232,447**	**51,549,540**	**(1,066,244)**	**50,483,296**

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

Segment reporting *(continued)*

Business segments *(continued)*

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**
Profit 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
Income tax expense	-	-	-	(111,458)	(111,458)	(1,236)	584	456	(741)	-	(112,395)	1,301	(111,094)
Net profit for the period	**437,839**	**679,239**	**84,612**	**(713,402)**	**488,288**	**18,880**	**(11,057)**	**(35,781)**	**5,412**	**(6,145)**	**459,597**	**24,904**	**484,501**

31 December 2007	Retail Banking	Corporate Banking	Investment Banking	Other Operations	Total Banking	Insurance	Leasing	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Segment assets	5,467,862	21,676,773	14,391,417	1,078,079	42,614,131	1,190,459	345,942	60,928	109,312	216,063	44,536,835	(415,744)	44,121,091
Investments in associates and subsidiaries	-	-	-	607,175	607,175	72,658	7,339	6,159	8,713	5,550	707,594	(593,188)	114,406
Total assets	**5,467,862**	**21,676,773**	**14,391,417**	**1,685,254**	**43,221,306**	**1,263,117**	**353,281**	**67,087**	**118,025**	**221,613**	**45,244,429**	**(1,008,932)**	**44,235,497**
Segment liabilities	10,658,224	24,019,742	2,480,099	535,719	37,693,784	954,794	318,317	23,291	2,030	2,889	38,995,105	(399,226)	38,595,879
Shareholders’ equity and minority interest	-	-	-	5,527,522	5,527,522	308,323	34,964	43,796	115,995	218,724	6,249,324	(609,706)	5,639,618
Total Liabilities and Shareholders’ Equity	**10,658,224**	**24,019,742**	**2,480,099**	**6,063,241**	**43,221,306**	**1,263,117**	**353,281**	**67,087**	**118,025**	**221,613**	**45,244,429**	**(1,008,932)**	**44,235,497**

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

6. Cash and balances with the Central Bank

As at 30 June 2008 and 31 December 2007, cash and cash balances with the Central Bank are as follows:

	30 June 2008	31 December 2007
Cash on hand	381,128	422,143
Balances with the Central Bank excluding reserve deposits	-	104
Others	1,009	1,345
Total cash and balances with the Central Bank	**382,137**	**423,592**

Cash and cash equivalents as at 30 June 2008 and 31 December 2007, included in the accompanying consolidated statement of cash flows are as follows:

	30 June 2008	31 December 2007
Cash on hand	381,128	422,14
Balances with the Central Bank	-	104
Receivable from reverse repurchase agreements *(Note 8)*	-	715,83
Loans and advances to banks with original maturity less than three months	3,994,858	2,877,94
Others	1,009	1,34
	4,376,995	**4,017,36**
Blocked bank deposits	(132,594)	(64,60
Total cash and cash equivalents in the statement of cash flows	**4,244,401**	**3,952,76**

7. Financial assets at fair value through profit or loss

As at 30 June 2008 and 31 December 2007, financial assets at fair value through profit or loss are as follows:

	30 June 2008		31 December 2007	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Eurobonds issued by the Turkish Government	234,836	295,632	238,189	319,957
Government bonds in YTL	82,174	74,008	109,397	96,016
		369,640		**415,973**
Equity and other non-fixed income instruments:				
Listed shares		802		905
Investment funds		435		2,027
Derivatives held for trading purpose		25,339		39,113
		26,576		**42,045**
Total financial assets at fair value through profit or loss		**396,216**		**458,018**

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.

As at and for the six-month period ended 30 June 2008, net income from trading of financial assets amounting to YTL 15,886 (30 June 2007: YTL 47,589) in total is included in “trading income, net”.

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

7. Financial assets 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 2008		31 December 2007	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at financial institutions for repurchase transactions	91,306	99,770	140,098	191,407
Deposited at Istanbul Stock Exchange ("ISE") for Capital Markets Board	50	45	200	169
Blocked equity shares	157	490	157	490
		100,305		**192,066**

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 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 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.

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

	30 June 2008					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 year**	**Over 5 year**	**Total**
Currency swaps:						
Purchases	322,983	102,606	18,340	-	-	**443,929**
Sales	323,040	101,061	18,422	-	-	**442,523**
Currency forwards:						
Purchases	12,018	72,127	6,568	-	-	**90,713**
Sales	12,012	72,102	6,567	-	-	**90,681**
Cross currency interest rate swaps:						
Purchases	-	-	-	78,348	77,610	**155,958**
Sales	-	-	-	83,928	72,030	**155,958**
Interest rate swaps:						
Purchases	-	-	34,300	135,771	-	**170,071**
Sales	-	-	34,300	126,767	-	**161,067**
Currency, interest rate and investment security options:						
Purchases	-	-	-	-	2	**2**
Sales	-	-	-	-	-	**-**
Other:						
Purchases	-	-	-	55,125	-	**55,125**
Sales	-	-	-	36,750	18,375	**55,125**
Total of purchases	335,001	174,733	59,208	269,244	77,612	**915,798**
Total of sales	335,052	173,163	59,289	247,445	90,405	**905,354**
Total of transactions	**670,053**	**347,896**	**118,497**	**516,689**	**168,017**	**1,821,152**

	31 December 2007					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 year**	**Over 5 year**	**Total**
Currency swaps:						
Purchases	287,214	56,819	3,879	-	-	**347,912**
Sales	280,797	53,906	3,882	-	-	**338,585**
Currency forwards:						
Purchases	148,336	47,591	46,519	-	-	**242,446**
Sales	148,226	47,561	46,493	-	-	**242,280**
Cross currency interest rate swaps:						
Purchases	-	-	-	78,000	83,160	**161,160**
Sales	-	-	-	87,815	73,395	**161,210**
Interest rate swaps:						
Purchases	-	-	-	77,199	-	**77,199**
Sales	-	-	-	69,065	-	**69,065**
Currency, interest rate and investment security options:						
Purchases	-	-	-	-	-	**-**
Sales	-	-	-	-	2	**2**
Other:						
Purchases	-	-	-	-	-	**-**
Sales	-	-	-	-	-	**-**
Total of purchases	435,550	104,410	50,398	155,199	83,160	**828,717**
Total of sales	429,023	101,467	50,375	156,880	73,397	**811,142**
Total of transactions	**864,573**	**205,877**	**100,773**	**312,079**	**156,557**	**1,639,859**

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

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 2008		31 December 2007	
	Fair value of underlying assets	**Carrying Value of corresponding assets**	**Fair value of underlying assets**	**Carrying Value of corresponding assets**
Reverse repurchase agreements	-	-	793,015	715,835
	-	**-**	**793,015**	**715,835**

Accrued interest on receivables from repurchase agreements amounting to YTL 207 is included in the carrying amount of corresponding assets as at 31 December 2007.

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 2008		31 December 2007	
	Fair value of underlying assets	**Carrying Value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying Value of corresponding liabilities**
Financial assets at fair value through profit or loss	99,770	92,869	191,407	137,505
Investment securities	2,111,783	1,789,949	2,315,737	2,015,930
	2,211,553	**1,882,818**	**2,507,144**	**2,153,435**

Accrued interest on obligations under repurchase agreements amounting to YTL 33,922 (31 December 2007: YTL 114,436) 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 at 30 June 2008 and 31 December 2007, loans and advances to banks comprise the followings:

	30 June 2008			31 December 2007		
	YTL	**Foreign Currency**	**Total**	**YTL**	**Foreign Currency**	**Total**
Loans and advances to banks – demand:						
Domestic banks	1,390	3,386	4,776	29,046	7,945	36,991
Foreign banks	5	191,992	191,997	40	145,376	145,416
	1,395	**195,378**	**196,773**	**29,086**	**153,321**	**182,407**
Loans and advances to banks – time:						
Domestic banks	85,843	124,573	210,416	766,771	23,728	790,499
Foreign banks	947,783	2,745,696	3,693,479	64,228	1,852,018	1,916,246
	1,033,626	**2,870,269**	**3,903,895**	**830,999**	**1,875,746**	**2,706,745**
Total loans and advances to banks	**1,035,021**	**3,065,647**	**4,100,668**	**860,085**	**2,029,067**	**2,889,152**

As at 30 June 2008, loans and advances-demand at foreign banks include blocked accounts of YTL 132,594 (31 December 2007: YTL 64,606) held against the "Diversified Payment Rights" securitizations and insurance business.

10. Loans and advances to customers

As at 30 June 2008 and 31 December 2007, outstanding loans and advances to customers comprise the followings:

	30 June 2008	**31 December 2007**
Corporate loans	19,526,034	16,274,691
Consumer loans	7,271,168	6,012,036
Credit cards	577,932	561,420
Loans and advances to financial institutions	963,782	932,047
Total performing loans	28,338,916	23,780,194
Non-performing loans	1,286,982	1,191,703
Total gross loans	**29,625,898**	**24,971,897**
Finance lease receivables, net of unearned income *(Note 11)*	326,857	330,217
Factoring receivables	97,299	63,580
Allowance for possible loan losses from loans and receivables and finance lease receivables	(1,247,770)	(1,243,662)
Loans and advances to customers, net	**28,802,284**	**24,122,032**

(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 2008	**31 December 2007**
Reserve at the beginning of the period/year	1,243,662	1,099,376
Adjustment for currency translation	3,149	(739)
Effect of change in estimates *(Note 2(e))*	(54,147)	-
Provision for possible loan losses	101,898	374,558
Recoveries	(46,696)	(228,308)
Provision, net of recoveries	1,247,866	1,244,887
Loans written off during the period/year	(96)	(1,225)
Reserve at the end of the period/year	**1,247,770**	**1,243,662**

11. Finance lease receivables

The finance 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 finance lease receivables:

	30 June 2008	**31 December 2007**
Finance lease receivables, net of unearned incomes	266,144	283,834
Add: non-performing lease receivables	60,713	46,383
Total finance lease receivables *(Note 10)*	326,857	330,217
Less: allowance for possible losses on lease receivables	(55,773)	(46,383)
	271,084	**283,834**

	30 June 2008	**31 December 2007**
Due within one year	106,464	149,616
Due between 1 and 5 years	206,298	184,126
Finance lease receivables, gross	312,762	333,742
Unearned income	(41,678)	(49,908)
Finance lease receivables, net	**271,084**	**283,834**
Due within one year	93,558	127,416
Due between 1 and 5 years	177,526	156,418
Finance lease receivables, net	**271,084**	**283,834**

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

12. Investment securities

As at 30 June 2008 and 31 December 2007, investment securities comprised the following:

	30 June 2008	31 December 2007
Available-for-sale financial assets	9,668,688	9,488,837
Held to maturity securities	2,506,549	1,664,351
Total investment securities	**12,175,237**	**11,153,188**

Available-for-sale financial assets:

	30 June 2008		31 December 2007	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in YTL	7,038,261	6,798,227	6,866,981	6,712,711
Eurobonds issued by the Turkish Government	1,400,690	1,339,523	1,264,972	1,349,066
Government bonds in foreign currencies	1,003,571	1,008,113	1,334,482	1,340,183
Treasury bills in YTL	463,044	453,456	5,221	5,190
Bonds issued by foreign banks	61,009	60,751	71,766	72,005
Corporate bonds	9,932	7,472	8,281	8,061
		9,667,542		**9,487,216**
Equity and other non-fixed income instruments:				
Listed shares	696	1,146	617	1,621
		1,146		**1,621**
Total available-for-sale financial assets		**9,668,688**		**9,488,837**

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

	30 June 2008		31 December 2007	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	1,788,985	1,800,144	2,153,159	2,268,582
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	361,735	308,506	360,000	292,367
Deposited at Turkish Treasury for insurance operations	335,129	302,323	317,703	288,419
Deposited at Central Bank of Turkey for interbank transactions	254,060	267,187	502,166	547,114
Deposited at Central Bank of Turkey for repurchase transactions	158,607	167,742	20,009	21,635
Deposited at Central Bank of Turkey for foreign currency money market transactions	95,000	99,030	97,000	107,786
Deposited at Clearing House	30	24	20	19
		2,944,956		**3,525,922**

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

12. Investment securities *(continued)*

Held to maturity securities:

	30 June 2008			31 December 2007		
	Face Value	**Carrying Value**	**Fair Value**	**Face Value**	**Carrying Value**	**Fair Value**
Debt instruments:						
Government bonds in YTL	2,171,500	2,171,585	2,150,446	1,458,250	1,457,965	1,465,476
Eurobonds issued by the Turkish Government	219,064	232,875	215,512	134,297	143,470	146,175
Government bonds in foreign currencies	56,073	55,359	55,510	18,405	19,021	19,357
Certificate of deposits	36,750	36,886	36,886	34,950	35,170	35,170
Bonds issued by foreign banks	9,662	9,844	9,799	8,561	8,725	8,704
Total held to maturity securities		**2,506,549**	**2,468,153**		**1,664,351**	**1,674,882**

The Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of YTL 710,000,000 (full YTL) and US Dollar 100,000,000 (full US Dollar) to its held-to-maturity investment securities portfolio at their fair values of YTL 663,894,500 (full YTL) and US Dollar 101,934,270 (full US Dollar), respectively as of their reclassification dates, in 2008. These reclassifications are presented in "purchases during the period" line in the movement table of held-to-maturity investment securities. The value increases of such securities are recorded under the shareholders' equity and will be amortized through the consolidated income statement until their maturities. The changes in fair value of such securities amounting YTL 664,580 (full YTL) and US Dollar 1,958,193 (full US Dollar), respectively, which are recorded under the shareholders' equity will be amortized through the statement of income until their maturities.

Additionally, the Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of YTL 1,240,000,000 (full YTL), US Dollar 40,000,000 (full US Dollar), and EUR 20,000,000 (full EUR) to its investment securities held-to-maturity portfolio at their fair values of YTL 1,237,751,050 (full YTL), US Dollar 41,706,400 (full US Dollar), and EUR 19,475,000 (full EUR), respectively as of their reclassification dates, in 2007. The value increases/(decreases) of such securities amounting YTL 5,217,409 (full YTL), US Dollar 774,816 (full US Dollar), and EUR (448,178) (full EUR) are recorded under shareholders' equity and will be amortized through the statement of income until their maturities.

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

	30 June 2008		31 December 2007	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Central Bank of Turkey for interbank transactions	1,343,500	1,368,246	1,190,000	1,184,759
Deposited at foreign financial institutions for repurchase transactions	143,396	153,773	150,000	165,914
Deposited at Turkish Treasury for insurance operations	68,750	67,361	70,250	63,427
Deposited at Central Bank of Turkey for foreign currency money market transactions	50,000	54,040	25,682	26,055
Others	36,750	36,886	34,950	35,170
		1,680,306		**1,475,325**

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

13. Investment in equity participations

	30 June 2008			31 December 2007		
	At Cost	Value Decrease	Carrying Value	At Cost	Value Decrease	Carrying Value
Unquoted investments:						
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	8,521	(1,667)	6,854	8,521	(1,667)	6,854
Mastercard Incorporated	6,562	-	6,562	-	-	-
Kıbrıs Vakıflar Bankası Ltd.	6,073	-	6,073	3,119	-	3,119
Bayek Tedavi ve Sağlık Hizmetleri AŞ	35,598	(32,165)	3,433	35,598	(32,165)	3,433
Vakıf İnşaat Restorasyon AŞ	8,502	(5,867)	2,635	8,502	(5,867)	2,635
Kredi Kayıt Bürosu AŞ	1,792	-	1,792	1,792	-	1,792
Bankalararası Kart Merkezi AŞ	1,369	-	1,369	1,369	-	1,369
Vadeli İşlem ve Opsiyon Borsası AŞ	1,170	-	1,170	1,170	-	1,170
Vakıf Gayrimenkul Ekpertiz ve Değ. AŞ	897	-	897	897	-	897
Güney Ege Enerji İşlt. Ltd. Şti.	219,271	(218,482)	789	219,271	(218,482)	789
İzmir Enternasyonal Otelcilik AŞ	6,461	(6,461)	-	6,461	(6,461)	-
İstanbul Reasürans AŞ	2,132	(2,132)	-	2,132	(2,132)	-
Vak-Bel İthalat AŞ	-	-	-	12,919	(12,919)	-
Others	2,044	(477)	1,567	3,704	(477)	3,227
	317,585	**(267,251)**	**50,334**	**322,648**	**(280,170)**	**42,478**
Quoted investments:						
Türkiye Sınai Kalkınma Bankası AŞ	43,121	(6,093)	37,028	65,144	-	65,144
Vakıf Girişim Sermayesi Yat. Ort. AŞ	1,833	-	1,833	3,251	-	3,251
Other	2,841	-	2,841	3,533	-	3,533
	47,795	**(6,093)**	**41,702**	**71,928**	**-**	**71,928**
	365,380	**(273,344)**	**92,036**	**394,576**	**(280,170)**	**114,406**

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 depend on the conclusion on administrative procedures in accordance with the decisions of Council of Ministers. 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.

As at 30 June 2008, Vak-Bel İthalat AŞ has been merged with Vakıf Enerji ve Madencilik AŞ, which is a consolidating entity.

As per the resolution no.77232 of the Board of Directors of the Parent Bank on 3 April 2008, it is decided to work on disposal process of Roketsan Roket Sanayi AŞ ("Roketsan"), with carrying value of YTL 7,594 in the accompanying consolidated financial statements, that the Bank owns 10% shares representing 14,600 YTL nominal shares of its capital of 146,000 YTL to the third parties or other shareholders of Roketsan.

13. Investment in equity participations *(continued)*

In the same Board of Directors' meeting, it has been decided to review Capital Markets Board regulations to purchase majority of the shares of Vakıf Gayrimenkul Değerleme AŞ is in conformity with the regulations.

As per the resolution of the Board of Directors dated 27 December 2007, it is decided to sell the shares of Kıbrıs Vakıflar Bankası Ltd in case of appropriate economic conditions occur for this transaction.

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.

The sales contract has been signed as of 7 March 2008 for the sale of the Bank's total shares of Vakıf Girişim Sermayesi Yatırım Ortaklığı AŞ consisting of (A) Group share with a percentage of 25.00 and (B) Group share with a percentage of 6.00, 31.00% in total, to the Multinet Kurumsal Hizmetler AŞ and also for the sale of the shares with a percentage of 0.15 in total and consisting of (B) Group share of Vakıf Finansal Kiralama AŞ with a percentage of 0.05, (B) Group share of Vakıf Deniz Finansal Kiralama AŞ with a percentage of 0.05 and (B) Group share of Güneş Sigorta AŞ with a percentage of 0.05 to CFK Kurumsal Finansal Danışmanlık AŞ. Selling price for the shares has been determined as YTL 3,129. Authorization of the Capital Markets Board is needed for the sales transaction to be closed.

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 Group in the prior periods, were sold at a price of YTL 102 on 6 June 2007. The Group has recorded loss on sale of equity shares amounting to YTL 10 in the accompanying consolidated financial statements.

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 Group has recorded loss on sale of associates amounting to YTL 8,639.

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

14. Property and equipment and intangible assets

Movement in property and equipment from 1 January to 30 June 2008 and 1 January to 31 December 2007 is as follow:

	1 January 2008	Currency translation difference	Additions	Disposals	30 June 2008
Cost:					
Land and buildings	926,560	297	15,292	(30,011)	912,138
Motor vehicles	29,759	5	3,584	(1,273)	32,075
Furniture, office equipment and leasehold improvements	517,534	139	19,421	(22,486)	514,608
Other tangibles	37,393	-	43,403	(27,266)	53,530
	1,511,246	**441**	**81,700**	**(81,036)**	**1,512,351**
Accumulated depreciation:					
Land and buildings	192,984	190	11,966	(32,280)	172,860
Motor vehicles	28,706	-	2,508	(1,007)	30,207
Furniture, office equipment and leasehold improvements	422,464	83	6,531	(9,345)	419,733
Other tangibles	15,880	-	24,817	(28,205)	12,492
	660,034	**273**	**45,822**	**(70,837)**	**635,292**
Net Book Value	**851,212**	**168**	**35,878**	**(10,199)**	**877,059**

	1 January 2008	Currency translation difference	Additions	Disposals	30 June 2008
Cost:					
Intangible assets	23,380	93	10,654	(483)	33,644
	23,380	**93**	**10,654**	**(483)**	**33,644**
Accumulated amortization:					
Intangible assets	8,422	83	1,806	(434)	9,877
	8,422	**83**	**1,806**	**(434)**	**9,877**
Net Book Value	**14,958**	**10**	**8,848**	**(49)**	**23,767**

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

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

	1 January 2007	Currency translation difference	Transfer (*)	Additions	Disposals	31 December 2007
Cost:						
Land and buildings	820,002	(162)	81,512	35,244	(10,036)	926,560
Motor vehicles	29,461	(3)	-	2,869	(2,568)	29,759
Furniture, office equipment and leasehold improvements	456,578	(69)	-	71,447	(10,422)	517,534
Other tangibles	27,178	-	-	17,940	(7,725)	37,393
	1,333,219	**(234)**	**81,512**	**127,500**	**(30,751)**	**1,511,246**
Accumulated depreciation:						
Land and buildings	165,302	(97)	4,879	24,931	(2,031)	192,984
Motor vehicles	25,486	(2)	-	4,627	(1,405)	28,706
Furniture, office equipment and leasehold improvements	385,439	(35)	-	44,171	(7,111)	422,464
Other tangibles	6,799	-	-	9,954	(873)	15,880
	583,026	**(134)**	**4,879**	**83,683**	**(11,420)**	**660,034**
Net Book Value	**750,193**	**(100)**	**76,633**	**43,817**	**(19,331)**	**851,212**

	1 January 2007	Currency translation difference	Transfer	Additions	Disposals	31 December 2007
Cost:						
Intangible assets	13,487	(56)	-	10,219	(270)	23,380
	13,487	**(56)**	**-**	**10,219**	**(270)**	**23,380**
Accumulated amortization:						
Intangible assets	5,819	(49)	-	2,762	(110)	8,422
	5,819	**(49)**	**-**	**2,762**	**(110)**	**8,422**
Net Book Value	**7,668**	**(7)**	**-**	**7,457**	**(160)**	**14,958**

(*) Transfer from asset held for resale by the approval of BRSA.

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

15. Other assets

	30 June 2008	31 December 2007
Reserve deposit at Central Bank of Turkey	2,072,101	2,070,141
Private pension system receivables	338,855	291,872
Asset held for resale	308,135	285,825
Prepaid expenses	240,108	217,753
Receivables from insurance activities	232,382	199,010
Receivables from term sales of fixed assets	145,972	138,749
Investment properties	57,735	56,871
Deferred acquisition cost, net of reinsurance share	43,506	29,333
Miscellaneous receivables	32,876	17,057
Receivables from credit card payments	17,047	30,087
Prepaid taxes and taxes and funds to be refunded	6,449	1,601
Others	63,792	120,305
Total other assets	**3,558,958**	**3,458,604**

At 30 June 2008, 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 subsidiaries. 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 12.18% for YTL, 1% for US Dollar and 1.80% for Euro as at 30 June 2008.

As at 30 june 2008, YTL 308,135 (31 December 2007: YTL 285,825) 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

As at 30 June 2008 and 31 December 2007, deposits from banks comprise the following:

	30 June 2008	31 December 2007
Payable on demand	760	1,224
Term deposits	543,677	750,342
Total deposit from banks	**544,437**	**751,566**

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

17. Deposit from customers

As at 30 June 2008 and 31 December 2007, deposits from customers comprise the following:

	30 June 2008		31 December 2007	
	Demand Deposit	**Time Deposit**	**Demand Deposit**	**Time Deposit**
Saving deposits	843,215	6,835,632	682,210	6,182,520
Foreign currency deposits	1,112,313	8,654,946	811,090	5,712,714
Residents in Turkey	1,082,419	8,011,987	769,363	5,263,766
Residents in abroad	29,894	642,959	41,727	448,948
Commercial deposits	917,785	4,895,598	664,908	4,248,067
Public sector deposits	1,135,308	2,893,134	971,314	2,013,372
Other	1,578,230	5,694,521	409,804	6,595,733
Total deposit from customers	**5,586,851**	**28,973,831**	**3,539,326**	**24,752,406**

18. Funds borrowed

As at 30 June 2008 and 31 December 2007, funds borrowed comprise the followings with their original maturities:

	30 June 2008		31 December 2007	
	YTL	**Foreign currency**	**YTL**	**Foreign currency**
Short-term funds	106,034	1,616,486	52,619	1,412,772
Short-term portion of long term funds	764	501,346	-	422,364
Total short-term funds	106,798	2,117,832	52,619	1,835,136
Medium/long term funds	85,987	3,147,461	121,963	3,150,125
Total funds borrowed	**192,785**	**5,265,293**	**174,582**	**4,985,261**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 12.21% (31 December 2007: 13.37%) of the Bank’s liabilities.

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+0.625% and Libor+0.825%, respectively, with the participation of 26 international banks through club deal. On 3 December 2007, the Bank has renewed syndication loan of US Dollar 375 million with one year of maturity and interest rate Libor+0.25% (total cost Libor+%0.575) with the participation of 23 international banks.

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.

On 12 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. On 23 July 2008, the Bank has renewed the syndication loan by the amount of US Dollar 750 million with interest rates of US Libor+0.77 and EUR Libor+0.77, and with the participation of 25 banks.

(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 2008	**31 December 2007**
Private pension system payables	339,589	295,343
Blocked accounts against expenditures of card holders	292,230	275,684
Life mathematical provisions	260,903	283,402
Reserve for unearned premiums	219,821	190,328
Reserve for employee severance indemnity	123,943	121,321
Provision given to branches	120,692	12,781
Transfer orders	113,709	101,158
Provision for outstanding claims	103,492	98,892
Provision for non-cash loans	89,561	82,391
Payables due to insurance activities	64,223	33,679
Reserve for short term employee benefits	61,750	79,945
Unearned income	61,314	47,614
Vacation pay liability	33,315	21,146
Deferred commission income from insurance business	30,624	26,384
Blocked accounts	23,938	58,843
Withholding taxes	21,556	19,569
Payables to suppliers relating to finance lease activities	18,230	50,185
Trading liabilities – Derivative financial instruments held for trading purpose	15,228	22,290
Miscellaneous payables	13,059	47,912
Clearing account	4,405	72,495
Factoring payables	-	11,480
Other provisions	127,988	123,586
Other liabilities	62,783	72,997
Total other liabilities and provisions	**2,202,353**	**2,149,425**

Insurance business related provisions are detailed in the tables below:

Reserve for unearned premiums	**30 June 2008**	**31 December 2007**
At the beginning of the period/year	190,328	122,552
Premiums written during the period/year *(Note 23)*	224,765	381,526
Premiums earned during the period/year *(Note 23)*	(195,272)	(313,750)
At the end of the period/year	**219,821**	**190,328**

Provision for outstanding claims	**30 June 2008**	**31 December 2007**
At the beginning of the period/year	98,892	82,819
Cash paid for claims settled during the period/year *(Note 25)*	(167,448)	(233,564)
Increase during the period/year *(Note 25)*	172,048	249,637
At the end of the period/year	**103,492**	**98,892**

Life mathematical provisions	**30 June 2008**	**31 December 2007**
At the beginning of the period/year	283,402	268,632
Entrance during the period/year	61,910	208,900
Withdrawals during the period/year	(77,416)	(194,620)
Change in unrecognized gain from backing assets	(6,993)	490

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

At the end of the period/year	**260,903**	**283,402**

(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 2008	31 December 2007
At the beginning of the period/year	121,321	109,440
Currency translation difference	32	(8)
Payment during the period/year	(127)	(7,687)
Provision for the period/year	2,717	19,576
At the end of the period/year	**123,943**	**121,321**

20. Income taxes

Major components of income tax expense:

	30 June 2008	30 June 2007
Current income tax		
Current income tax charge	(132,593)	(129,418)
Deferred income tax		
Relating to origination and reversal of temporary differences	10,478	18,324
Income tax expense	**(122,115)**	**(111,094)**

The current tax liabilities and prepaid taxes are detailed below:

	30 June 2008	31 December 2007
Current tax provision calculated	100,093	249,956
Prepaid taxes during the period/year	(43,506)	(165,939)
Current tax liabilities	**56,587**	**84,017**

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 2008 and 2007 were as follows :

	30 June 2008	Tax rate (%)	30 June 2007	Tax rate (%)
Net profit from ordinary activities before income tax and minority interest	**669,073**		**595,595**	
Taxes on income per statutory tax rate	(133,815)	(20.00)	(119,119)	(20.00)
Effect of income not subject to tax	9,142	1.37	13,520	2.27
Disallowable expenses	(588)	(0.09)	5,734	0.96
Tax rate change	-	-	(901)	(0.15)
Effect of others, net	3,146	0.47	(10,328)	(1.73)
Provision for taxes on income	**(122,115)**	**(18.25)**	**(111,094)**	**(18.65)**

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

20. Income taxes *(continued)*

Deferred taxes at 30 June 2008 and 31 December 2007 are attributable to the items below:

	30 June 2008	**31 December 2007**
Provision for employee severance indemnity and unused vacations	31,256	27,143
BRSA - Tax Code depreciation differences	26,357	26,704
Valuation differences of financial assets and liabilities	21,524	1,596
Valuation difference for associates and subsidiaries	4,386	2,730
Other provisions	10,095	4,156
Others	5,085	2,257
Deferred tax assets, (net)	**98,7[illegible]**	**64,586**
Net-off of the deferred tax assets and liabilities from the same entity	(23,769)	(30,086)
Deferred tax assets, (net)	**74,934**	**34,500**
Valuation differences of financial assets and liabilities	19,648	28,381
Valuation difference for associates and subsidiaries	-	1,320
Others	10,078	6,246
Deferred tax liabilities, (net)	**29,726**	**35,947**
Net-off of the deferred tax assets and liabilities from the same entity	(23,769)	(30,086)
Deferred tax liabilities, (net)	**5,957**	**5,861**

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

21. Shareholders' equity

As at 30 June 2008, the authorized nominal share capital of the Bank amounted to YTL 2,500,000 (31 December 2007: YTL 2,500,000). 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 54th Annual General Assembly held on 21 March 2008, net profit of the year 2007 amounting to YTL 1,002,616 is decided to be distributed as legal reserves in the amount of YTL 100,262, as extraordinary reserves in the amount of YTL 760,154 and as dividend in the amount of YTL 142,200 of which YTL 57,800 was recorded as provision for dividend to employees as at and for the year ending 31 December 2007.

The retained earnings amounting to YTL 1,557,675 (31 December 2007: YTL 1,173,434) include legal reserves amounting to YTL 328,271 in total which are generated by annual appropriations amounting to 5% of the net profit of the Bank and its subsidiaries 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 2008 net minority interest amounts to YTL 285,204 (31 December 2007: YTL 269,806).

Minority interest is detailed as follows:

	30 June 2008	31 December 2007
Capital and other reserves	348,447	347,740
Retained earnings	(83,760)	(78,963)
Net profit for the period/year	20,517	1,029
Total minority interest	**285,204**	**269,806**

Fair value reserves of available-for-sale financial assets are detailed as follows:

	30 June 2008	30 June 2007
Balance at the beginning of the period/year	126,725	54,049
Net (losses)/gains from changes in fair value	(321,037)	60,371
Related deferred and current income taxes	61,455	(12,074)
Net gains transferred to the statement of income on disposal	(20,675)	(18,473)
Related deferred and current income taxes	4,117	3,695
Balance at the end of the period/year	**(149,415)**	**87,568**

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

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 2008	31 December 2007
Cash loans	5,244	4,119
Non-cash loans	9,538	11,280
Deposits taken	1,169,076	1,168,276

Transactions

	30 June 2008	30 June 2007
Interest expense	(8,308)	(1,584)
Other operating income	435	289
Other operating expense	154	221

Directors' Remuneration

The key management and the members of the Board of Directors received remuneration and fees amounting to YTL 5,536 for the six month period ended 30 June 2008 (30 June 2007: YTL 4,399).

23. Other Income

As at and for the six-month period ended 30 June 2008 and 2007, other income comprised the followings:

	30 June 2008	30 June 2007
Earned premiums *(Note 19)*	195,272	140,887
Written premiums *(Note 19)*	224,765	190,021
Change in reserve for unearned premiums *(Note 19)*	(29,493)	(49,134)
Excess fee charged to customers for communication expenses	35,024	33,524
Pension business income	6,541	4,260
Income from sale of fixed assets	5,485	29,928
Income from associates	4,980	4,260
Rent income	4,398	1,924
Reversals from prior years' provisions	-	21,135
Other	33,269	34,292
Total	**284,969**	**270,210**

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

24. Salaries and employee benefits

As at and for the six-month period ended 30 June 2008 and 2007, salaries and employee benefits comprised the following:

	30 June 2008	30 June 2007
Staff costs		
Wages and salaries	(152,187)	(119,526)
Employer's share of social security premiums	(41,094)	(3,347)
Other fringe benefits	(113,229)	(115,894)
Provision for employee termination benefits and liability for unused vacations	(13,235)	(9,669)
Total	**(319,745)**	**(248,436)**

The average number of employees during the period is:

	30 June 2008	30 June 2007
The Bank	8.999	8.172
Subsidiaries	1.680	1.584
Total	**10.679**	**9.756**

25. Other expenses

As at and for the six-month period ended 30 June 2008 and 2007, other expenses comprised the following:

	30 June 2008	30 June 2007
Incurred insurance claims *(Note 19)*	(172,048)	(118,294)
Insurance claims paid *(Note 19)*	(167,448)	(112,304)
Change in provision for outstanding claims *(Note 19)*	(4,600)	(5,990)
Credit card promotion expenses	(54,057)	(2,253)
Provision for reserve for short term employee benefits	(35,100)	(34,054)
Operating lease charges	(29,472)	(22,457)
Communication expenses	(20,518)	(19,727)
Advertising expenses	(19,090)	(14,710)
Saving Deposit Insurance Fund premiums	(15,970)	(14,060)
Other provision expenses	(15,371)	(8,841)
Cleaning service expenses	(11,651)	(6,918)
Computer usage expenses	(8,796)	(4,930)
Energy expenses	(8,189)	(5,903)
Maintenance expenses	(7,645)	(5,883)
Rent expenses	(6,840)	(26,203)
Consultancy expenses	(4,529)	(3,974)
Office supplies	(4,456)	(9,125)
Transportation expenses	(4,440)	(3,053)
BRSA participation fee	(3,300)	(3,774)
Hosting expenses	(2,521)	(4,843)
Pension business expenses	(749)	(532)
Loss on sale of assets	(534)	(901)
Donations	(439)	(1,359)
Change in life mathematical provisions	22,499	(22,858)
Other various administrative expenses	(76,756)	(67,619)
Total	**(479,972)**	**(402,271)**

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

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 2008	31 December 2007
Letters of guarantee	5,018,445	4,362,737
Letters of credit	1,530,705	1,118,055
Acceptance credits	496,703	456,865
Other guarantees	11,764	3,468
Total non-cash loans	7,057,617	5,941,125
Credit card limit commitments	3,077,477	3,067,930
Other commitments	3,569,924	2,962,312
Total	**13,705,018**	**11,971,367**

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.

27. Subsidiaries and associates

The table below sets out the Subsidiaries and shows their shareholding structure as at 30 June 2008:

Subsidiaries	***Shareholding Interest (%)***
Güneş Sigorta AŞ	36.35
Vakıf Emeklilik AŞ	75.30
Vakıf Enerji ve Madencilik AŞ	84.92
Taksim Otelcilik AŞ	51.52
Vakıf Finans Factoring Hizmetleri AŞ	86.97
Vakıf Finansal Kiralama AŞ	64.40
Vakıf Deniz Finansal Kiralama AŞ	73.95
Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ	21.77
Vakıf Yatırım Menkul Değerler AŞ	99.44
Vakıf Portföy Yönetimi AŞ	99.99
Vakıfbank International AG	90.00
World Vakıf Offshore Banking Ltd.	84.93
Kıbrıs Vakıflar Bankası Ltd.	15.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	29.47
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 subsidiaries does not have any shareholding interest in this company.

27. Subsidiaries and associates *(continued)*

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

As per the resolution no.76804 of the Board of Directors of the Bank on 27 December 2007, it is decided to merge Vakıf Deniz Finansal Kiralama AŞ and Vakıf Finansal Kiralama AŞ.

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. Its head office 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. Its head office is in Istanbul.

According to the resolution of the Bank's Board of Directors on 15 May 2008, it is decided to sell the shares of consolidated subsidiaries Güneş Sigorta AŞ and Vakıf Emeklilik AŞ partially or entirely.

Vakıf Finans Factoring Hizmetleri AŞ, has been established in 1998 to perform factoring transactions. Its head office is in Istanbul.

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. Its head office 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. Its head office is in Istanbul.

Vakıf Portföy Yönetimi AŞ, operates in investment fund management, portfolio management and pension fund management. Its head office 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. Its head office 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. Its head office is in Nicosia.

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

28. Significant events

- The monetary losses amounting YTL 379,000 incurred 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, the tax returns of 2002, 2003 and 2004 were submitted with a condition stating that such losses should have been deducted and the Bank may appeal to the tax court for the tax return. The Bank appealed to the tax court for the corporate tax return on 22 February 2007. Ankara 5. Tax court decided in favour of the Bank and YTL 125,187 was transferred to the Bank's accounts on 5 September 2007. The related tax administration has filled an appeal that is still in process.

  "The Law on the Collection of Some of the Public Receivables by Reconcilement" no.5736 has passed on 20 February 2008 in the Parliament and approved on 26 February 2008 by the President of the Turkish Republic. In accordance with this law's first sub clause of the third article, with the banks will not be sustained; if the banks take into consideration of 65 percent of these losses in the determination of revenues for the year 2001 as previous year losses, and admit to correct taxable income for the subsequent years and declare they have abnegated from all of the courts related to this matter in one month after this law come into effect.
  According to the same article's second sub clause, if there is a refund arising from the disclaim in the judgment decision about this subject, since the time this law come into effect, the amount to be refunded as advance, should be deducted from the refund arising from judgment authority's decision. There will be no interest or due surcharge for the amounts to be rejected and refunded.

  As per the 27 March 2008 dated resolution of the Board of Directors 2008, The Bank management has taken no decisions for any reconcilements for the point in dispute as stated in the second paragraph specified in the first paragraph above.

- Based on the resolution of 54th Annual General Assembly held on 21 March 2008, net profit of the year 2007 has been distributed on 30 May 2008 as follows:

	Profit Distribution Table of Year 2007
Current year's profit	**1,030,700**
Deferred tax income not subject to dividend distribution	(28,084)
Net profit of the year subject to distribution before legal reserves	**1,002,616**
Legal reserves	100,262
First Legal Reserves	*50,131*
Reserves allocated, according to banking law and articles of association.	*50,131*
Net profit of the year subject to distribution	**902,354**
Extraordinary reserves	760,154
Dividends to the shareholders	**142,200**

29. Subsequent event

The Bank's management has decided to implement growth strategy in credit card business with brand sharing with an existing brand in the market and decided to collaborate with Yapı Kredi Bankası AŞ in World credit card program. The Bank has nominated Bank's general manager for signing and preparation of the agreement. The main agreement and the additional clauses have been signed on 30 June 2008 and 31 July 2008, respectively and the agreement came into effect on 5 August 2008.