Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Consolidated Financial Statements
As at 31 December 2007
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

30 May 2008

This report includes 2 pages of independent auditors' report and 66 pages of consolidated financial statements together with their explanatory notes.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

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Independent Auditors' Report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statement of income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of certain consolidated companies as at 31 December 2007, which statements reflect total assets constituting 6.20 percent; and total operating income constituting 0.18 percent after elimination of inter-company balances and transactions as at and for the year ended 31 December 2007 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our audit report, insofar as it relates to the amounts included for those companies is based solely on the reports of the other auditors. The consolidated financial statements of the Group as at and for the year ended 31 December 2006 was audited by another auditor whose report dated 25 May 2007 expressed a qualified opinion for the adjustments as maybe required in respect of liability adequacy tests in insurance business which were not performed by the Group.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries give a true and fair view of the consolidated financial position of the Group as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Istanbul, Turkey
30 May 2008

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2007
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	31 December 2007	"Restated" 31 December 2006
ASSETS			
Cash and balances with the Central Bank	6	423,592	709,012
Financial assets at fair value through profit or loss	7	458,018	582,110
Receivables from reverse repurchase agreements	8	715,835	120,922
Loans and advances to banks	9	2,889,152	3,911,859
Loans and advances to customers	10,11	24,122,032	18,706,855
Investment securities	12	11,153,188	10,470,803
Investment in equity participations	13	114,406	142,878
Property and equipment	14	851,212	750,193
Intangible assets	14	14,958	7,668
Deferred tax assets	20	34,500	13,949
Other assets	15	3,458,604	3,318,080
Total assets		**44,235,497**	**38,734,329**
LIABILITIES AND EQUITY			
Deposits from banks	16	751,566	599,413
Deposits from customers	17	28,291,732	24,468,455
Obligations under repurchase agreements	8	2,153,435	1,488,248
Funds borrowed	18	5,159,843	5,525,649
Other liabilities and provisions	19	2,149,425	1,651,254
Current tax liabilities	20	84,017	89,213
Deferred tax liabilities	20	5,861	-
Total liabilities		**38,595,879**	**33,822,232**
Share capital		3,300,146	3,300,146
Fair value reserves of available-for-sale financial assets	21	126,725	54,049
Share premium		724,320	724,320
Revaluation surplus		14,282	18,613
Currency translation adjustment		30,905	37,144
Retained earnings	21	1,173,434	509,489
Total equity attributable to equity holders of the Bank		**5,369,812**	**4,643,761**
Minority interest	21	**269,806**	**268,336**
Total equity		**5,639,618**	**4,912,097**
Total liabilities and equity		**44,235,497**	**38,734,329**
Commitments and contingencies	26	**11,971,367**	**7,793,752**

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 Year Ended 31 December 2007
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	31 December 2007	"Restated" 31 December 2006
Interest income			
Interest on loans and receivables		3,302,840	2,508,768
Interest on securities		1,617,761	1,392,983
Interest on deposits with banks		351,421	253,151
Interest on money market placements		187,197	260,856
Other interest income		16,641	13,056
Total interest income		**5,475,860**	**4,428,814**
Interest expense			
Interest on deposits		(3,242,322)	(2,569,692)
Interest on money market deposits		(169,379)	(61,753)
Interest on funds borrowed		(273,929)	(223,036)
Other interest expense		(15,575)	(7,194)
Total interest expense		**(3,701,205)**	**(2,861,675)**
Net interest income		**1,774,655**	**1,567,139**
Fees and commission income		585,516	467,765
Fees and commission expense		(234,867)	(200,469)
Net fees and commission income		**350,649**	**267,296**
Other operating income			
Trading income, (net)	7	94,632	48,387
Foreign exchange gain, (net)		133,586	42,669
Other income	23	499,622	520,402
Total other operating income		**727,840**	**611,458**
Other operating expense			
Salaries and employee benefits	24	(609,425)	(499,891)
Provision for possible loan losses, net of recoveries	10,19	(130,177)	13,629
Depreciation and amortization	14	(86,445)	(78,826)
Taxes other than on income		(39,790)	(33,251)
Other expenses	25	(830,293)	(695,708)
Total other operating expense		**(1,696,130)**	**(1,294,047)**
Profit from operations		**1,157,014**	**1,151,846**
Income tax expense	20	(107,175)	(255,754)
Net profit for the year		**1,049,839**	**896,092**
Net profit for the year attributable to:			
Equity holders of the Bank		1,048,810	868,572
Minority interest	21	1,029	27,520
Earning per share (full YTL)		0.4199	0.6625

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 Year Ended 31 December 2007
(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
Reported balances at 1 January 2006		**2,692,703**	**279,110**	**1,169,756**	**11,387**	**-**	**218,263**	**323,612**	**4,694,831**
Correction of the errors	2	-	(2,946)	2,769	368	30,478	22,243	(80,664)	(27,752)
Restated balances at 1 January 2006		**2,692,703**	**276,164**	**1,172,525**	**11,755**	**30,478**	**240,506**	**242,948**	**4,667,079**
Increase in share capital		607,443	-	(448,205)	-	-	(159,238)	-	-
Increase in revaluation surplus		-	-	-	6,858	-	-	3,917	10,775
Net market value losses from available-for-sale financial assets	21	-	(222,115)	-	-	-	-	(6,049)	(228,164)
Currency translation adjustment for foreign operations		-	-	-	-	6,666	-	-	6,666
Dividends paid		-	-	-	-	-	(440,351)	-	(440,351)
Net profit for the year		-	-	-	-	-	868,572	27,520	896,092
Restated balances at 31 December 2006		**3,300,146**	**54,049**	**724,320**	**18,613**	**37,144**	**509,489**	**268,336**	**4,912,097**
Restated balances at 1 January 2007		**3,300,146**	**54,049**	**724,320**	**18,613**	**37,144**	**509,489**	**268,336**	**4,912,097**
Decrease in revaluation surplus		-	-	-	(4,331)	-	-	(1,083)	(5,414)
Net market value gains from available-for-sale financial assets	21	-	72,676	-	-	-	-	5,331	78,007
Currency translation adjustment for foreign operations		-	-	-	-	(6,239)	-	(624)	(6,863)
Dividends paid	21	-	-	-	-	-	(384,865)	(3,183)	(388,048)
Net profit for the year		-	-	-	-	-	1,048,810	1,029	1,049,839
Balances at 31 December 2007		**3,300,146**	**126,725**	**724,320**	**14,282**	**30,905**	**1,173,434**	**269,806**	**5,639,618**

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 Year Ended 31 December 2007
(Currency – Thousands of New Turkish Lira (YTL))

	Notes	31 December 2007	"Restate 31 December 20
Cash flows from operating activities:			
Net profit for the year		1,049,839	896,092
Deferred taxation	20	(31,968)	59,893
Provision for possible loan losses	10,19	130,177	(13,629)
Depreciation and amortization	14	86,445	78,826
Provision for retirement pay liability and unused vacations	24	22,716	15,997
Provision for short term employee benefits		142,245	51,000
Unearned premium reserve	23	67,776	15,944
Provision for outstanding claims	25	16,073	9,335
Life mathematical provisions	25	34,991	41,738
Other provision expenses	25	89,966	22,277
Operating profit before changes in operating assets and liabilities		**1,608,260**	**1,177,**
Changes in operating assets and liabilities:			
Loans and advances to banks		(29,469)	(46,349)
Reserve deposits		7,382	(1,389,
Financial assets at fair value through profit or loss		148,477	551,892
Loans and advances to customers		(5,737,401)	(6,175,
Derivative financial instruments		(10,562)	(6,261)
Other assets		(147,906)	(148,909)
Deposits from banks		153,633	(23,614)
Deposits from customers		3,883,710	1,729,
Obligation under repurchase agreements		668,863	1,275,
Other liabilities and provisions		325,773	91,129
Current tax liabilities		(5,196)	(275,947)
Cash used in operating activities		**(742,696)**	**(4,418,**
Cash flows from investing activities:			
Purchase of property and equipment	14	(127,500)	(92,256)
Proceeds from the sale of property and equipment		52,689	51,719
Purchase of intangible assets	14	(10,219)	(1,502)
Proceeds from the sale of intangible assets		270	-
Proceeds from sale of equity participations		6,600	6,327
Net (increase)/decrease in investment securities		(789,880)	421,477
Cash (used in)/provided by investing activities		**(868,040)**	**385,765**
Cash flows from financing activities:			
Net (decrease)/increase in funds borrowed		(352,159)	1,561,
Dividends paid		(388,048)	(440,351)
Cash (used in)/provided by financing activities		**(740,207)**	**1,121,**
Net decrease in cash and cash equivalents		(742,683)	(1,734,
Cash and cash equivalents at the beginning of the year	6	4,695,444	6,429,
Cash and cash equivalents at the end of the year	6	**3,952,761**	**4,695,**
Interest paid		(3,621,969)	(2,799,
Interest received		5,171,616	4,294,
Income taxes paid		255,152	358,015

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

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 466 domestic branches and 2 foreign branches in New York and Bahrain. In addition to its branches, the Bank has two banks each of which is located in Austria and Turkish Republic of Northern Cyprus. The Bank has 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 shares of the Bank having nominal value of YTL 322,000,000, representing the 25.18% of the Bank's outstanding shares, was publicly offered at a price between YTL 5.13-5.40 for each share having a nominal value of YTL 1 on November 2005, and YTL 1,172,347 was recorded as "Share Premiums" in shareholders' equity.

Overview of the Bank *(continued)*

On 19 December 2006, the Bank's 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
The General Directorate of the Foundations (Group B)	386.224.346	386,225	15.45
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402.552.666	402,553	16.10
Foundations (Group B)	4.681.491	4,681	0.19
Individuals and legal entities (Group B)	1.886.449	1,886	0.08
Publicly traded (Group D)	629.596.408	629,596	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").

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

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

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

Basis of preparation *(continued)*

Statement of compliance *(continued)*

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

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

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

The accompanying consolidated financial statements are authorized for issue by the directors on 30 May 2008.

Basis of preparation *(continued)*

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair 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 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.

(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

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 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

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

Significant accounting policies *(continued)*

Income taxes *(continued)*

Corporate tax *(continued)*

covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

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

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

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

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

The applicable tax rate for current and deferred 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. The Group's consolidated subsidiary in Austria realized this special condition in 2006, and utilized from 10% tax deduction for the previous years that it has paid, amounting to EUR 1,750,579 and recorded gain amounting to YTL 3,167 on its financial statements in the year 2006.

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 for corporate income tax purposes.

Corporate tax-payers required in "section 7.1 annual documentation" part of related communiqué, have to fill the "form relating to transfer pricing, controlled foreign companies and thin capitalization" ("the Form") as associated with purchasing and selling goods or services with related parties in an accounting period and send it to the tax office submitted as an appendix to the corporate tax return. However, Ministry of Finance, with declaration of serial no (2) communiqué, has specified that the Form for 2007 can be filed until the end of the evening of 14th day of August which is the last day of second temporary tax return of the year 2008.

Significant accounting policies *(continued)*

Income taxes *(continued)*

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.

(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 deposits are recognized on the date they are originated.

Significant accounting policies *(continued)*

Financial instruments *(continued)*

Measurement

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

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

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

Fair value measurement principles

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

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

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are recognized in the statement of income as interest on securities.

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 and held-to-maturity securities is reported as interest income.

Derecognition

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

Available-for-sale financial assets and financial assets 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.

Significant accounting policies *(continued)*

Financial instruments *(continued)*

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.

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.

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

(k) Investment property

Investment property is 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	8.5	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to 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 Social Security Foundation ("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 2.03 and YTL 1.86 at 31 December 2007 and 2006, 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 31 December 2007 and 2006 are as follows:

	31 December 2007	**31 December 2006**
	%	**%**
Discount rate	5.71	5.71
Expected rate of salary/limit increase	5.00	5.00
Turnover rate to estimate the probability of retirement	0.51	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 year, 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.

Unearned premium reserves: 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, unearned premium reserve set aside for unexpired risks as at the balance sheet dates, has been computed on daily pro-rata basis. The change in the provision for unearned premium 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 year 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 Turkish Treasury Insurance Department, which are applicable for Turkish insurance companies.

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

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

The Group performed liability adequacy test as at and for the year ended 31 December 2007 and 2006, and concluded that the liabilities provided are adequate.

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 year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

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

Significant accounting policies *(continued)*

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

- *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 capitalise borrowing costs as part of the cost of such assets. The revised *IAS 23* does not require the capitalisation 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 capitalisation is 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 unrecognised that would otherwise have been charged is recognised immediately. Any payments 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 recognised 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.

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**	
	31 December 2007	**31 December 2006**	**31 December 2007**	**31 December 2006**
Individually impaired	1,244,131	1,099,592	6,237	8,201
Allowance for impairment	(1,243,662)	(1,099,376)	(4,505)	(6,878)
Carrying amount	**469**	**216**	**1,732**	**1,323**
Collectively impaired	-	-	-	-
Allowance for impairment	-	-	-	-
Carrying amount	**-**	**-**	**-**	**-**
Past due but not impaired	573,747	630,046	-	-
Carrying amount	**573,747**	**630,046**	**-**	**-**
Neither past due nor impaired	23,348,080	17,804,710	-	-
Loans with renegotiated terms	199,736	271,883	-	-
Carrying amount	**23,547,816**	**18,076,593**	**-**	**-**
Total carrying amount	**24,122,032**	**18,706,855**	**1,732**	**1,323**

As at 31 December 2007 and 2006, 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

	31 December 2007	31 December 2006
Consumer loans	6,012,036	4,315,816
Manufacturing	5,203,576	4,170,682
Transportation and telecommunication	2,464,082	1,878,576
Wholesale and retail trade	2,235,625	1,261,081
Construction	1,585,878	1,533,133
Financial institutions	938,582	396,285
Credit cards	561,420	641,638
Hotel, food and beverage services	384,187	424,789
Agriculture and stockbreeding	382,723	180,917
Health and social services	222,813	254,791
Others	4,130,641	3,648,931
Total performing loans	**24,121,563**	**18,706,639**

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.

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**

31 December 2006	**Loans and advances to customers**		**Other assets**	
	Gross	**Net**	**Gross (*)**	**Net (*)**
Grade 6 : Individually Impaired	196,943	-	-	-
Grade 7 : Individually Impaired	32,450	216	-	-
Grade 8 : Individually Impaired	870,199	-	8,201	1,323
Total	**1,099,592**	**216**	**8,201**	**1,323**

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

Collateral policy

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

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

Cash loans	**31 December 2007**	**31 December 2006**
Secured loans:	17,705,269	15,457,456
Secured by cash collateral	6,118	9,261
Secured by mortgages	6,598,710	5,980,877
Secured by government institutions or government securities	161,984	120,775
Guarantees issued by financial institutions	99,006	111,234
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	10,839,451	9,235,309
Unsecured loans	6,416,294	3,249,183
Total performing loans	**24,121,563**	**18,706,639**

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

Financial risk management *(continued)*

Credit risk *(continued)*

Non-cash loans	31 December 2007	31 December 2006
Secured loans:	3,338,194	2,649,374
Secured by cash collateral	195,264	170,321
Secured by mortgages	1,003,575	1,075,729
Secured by government institutions or government securities	70	-
Guarantees issued by financial institutions	210,669	206,965
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,928,616	1,196,359
Unsecured loans	2,602,931	2,144,254
Total non-cash loans	**5,941,125**	**4,793,628**

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

	31 December 2007	31 December 2006
Cash collateral (*)	-	-
Mortgages	441,898	370,188
Promissory notes	7,190	2,416
Other	724,629	651,261
Total	**1,173,717**	**1,023,865**

(*) 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 and promissory note are 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:

	31 December 2007	31 December 2006
Textile	110,724	95,285
Construction	95,637	94,876
Food	93,591	92,372
Durable consumption	91,359	115,857
Consumer loans	54,497	32,967
Service sector	54,294	45,490
Agriculture and stockbreeding	14,050	10,894
Metal and metal products	11,108	5,527
Financial institutions	948	795
Other	717,923	605,529
Total non-performing loans	**1,244,131**	**1,099,592**

	31 December 2007	31 December 2006
Turkey	1,241,823	1,097,570
Austria	2,308	2,022
Total non-performing loans	**1,244,**	**1,099,592**

Financial risk management *(continued)*

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank only basis (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

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	524,749	148,775	120,400	87,019	475,998	404,815
Current tax liabilities	84,017	84,017	-	-	-	84,017	-	-
Total	**38,202,348**	**39,611,680**	**4,054,650**	**15,891,353**	**8,452,506**	**4,247,619**	**3,553,146**	**3,412,406**

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

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

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

	31 December 2007			**31 December 2006**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rates risk	22,459	30,047	12,200	85,842	113,500	9,520
Common share risk	737	2,084	135	2,590	4,246	1,347
Currency risk	19,463	24,682	10,218	18,267	24,996	13,792
Option risk	-	-	-	-	-	-
Total value at risk	**533,228**	**675,163**	**417,775**	**1,333,734**	**1,768,150**	**353,200**

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

Financial risk management *(continued)*

Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

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

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**

31 December 2006	**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	295,923	-	-	-	-	413,089	709,012
Receivables from reverse repurchase agreements	120,922	-	-	-	-	-	120,922
Loans and advances to banks	3,718,668	2,500	558	-	-	190,133	3,911,859
Loans and advances to customers	9,170,992	3,695,108	2,008,956	2,337,051	1,422,661	72,087	18,706,855
Investment securities	1,632,064	2,903,344	4,118,406	664,429	1,150,564	1,996	10,470,803
Other assets	2,120,486	1,201	61,216	17,594	-	813,811	3,014,308
Total assets	**17,059,055**	**6,602,153**	**6,189,136**	**3,019,074**	**2,573,225**	**1,491,116**	**36,933,759**
Deposits from banks	464,980	131,304	-	-	-	3,129	599,413
Deposits from customers	3,252,801	13,452,868	2,611,493	813,293	-	4,338,000	24,468,455
Obligations under repurchase agreements	262,704	258,429	699,011	268,104	-	-	1,488,248
Funds borrowed	1,236,704	2,603,104	1,333,704	323,813	-	28,324	5,525,649
Other liabilities and provisions	34,361	7,469	27,335	70,036	10	1,156,562	1,295,773
Current tax liabilities	-	-	-	-	-	89,213	89,213
Total liabilities	**5,251,550**	**16,453,174**	**4,671,543**	**1,475,246**	**10**	**5,615,228**	**33,466,751**
Net	**11,807,505**	**(9,851,021)**	**1,517,593**	**1,543,828**	**2,573,215**	**(4,124,112)**	**3,467,008**

(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 years of 2007 and 2006:

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

31 December 2006	US Dollar %	EUR %	YTL %
Cash and balances with the Central Bank	2.52	1.73	13.12
Loans and advances to banks	4.18-5.26	3.10-3.86	15.00-20.27
Loans and advances to customers	7.00-7.59	5.44-7.04	20.59-32.25
Investment securities	5.80-10.62	3.86-6.56	16.47-22.00
Deposits from banks	5.34-5.50	-	21.05
Deposits from customers	3.68-4.93	2.87-3.60	15.57
Obligations under repurchase agreements	5.46-5.75	3.70	11.65
Funds borrowed	5.55-6.00	3.43-5.00	13.00-15.22

(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 year ended 31 December 2007, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007. Interest rate sensitivity of equity is calculated by revaluing available for sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2006.

	Profit or loss		**Equity (*)**	
31 December 2007	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(20,350)	23,273	(20,350)	23,273
Available-for-sale financial assets	-	-	(138,047)	143,084
Floating rate financial assets	163,597	(163,597)	163,597	(163,597)
Floating rate financial liabilities	(48,134)	48,134	(48,134)	48,134
Total, net	**95,113**	**(92,190)**	**(42,934)**	**50,894**

	Profit or loss		**Equity (*)**	
31 December 2006	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(22,639)	25,713	(22,639)	(25,713)
Available-for-sale financial assets	-	-	(137,994)	151,605
Floating rate financial assets	116,883	(116,883)	116,883	(116,883)
Floating rate financial liabilities	(49,691)	49,691	(49,691)	49,691
Total, net	**44,553**	**(41,479)**	**(93,441)**	**58,700**

(*) 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.

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**

31 December 2006	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and balances with the Central Bank	25,248	657,371	2,248	684,867
Financial assets at fair value through profit or loss	294,515	167,540	60	462,115
Loans and advances to banks	2,143,599	429,051	714	2,573,364
Loans and advances to customers	4,727,633	1,742,991	44,421	6,515,045
Investment securities	2,913,018	826,666	-	3,739,684
Property and equipment	190	1,398	-	1,588
Other assets	409,442	627,398	37,994	1,074,834
Total assets	**10,513,645**	**4,452,415**	**85,437**	**15,051,497**
Deposits from banks	157,351	104	47	157,502
Deposits from customers	4,355,136	3,019,910	38,242	7,413,288
Obligations under repurchase agreements	1,382,966	83,156	-	1,466,122
Funds borrowed	4,234,561	1,039,200	26,909	5,300,670
Other liabilities and provisions	298,532	138,917	11,110	448,559
Total liabilities	**10,428,546**	**4,281,287**	**76,308**	**14,786,141**
Net on balance sheet position	**85,099**	**171,128**	**9,129**	**265,356**
Net off balance sheet position	**(123,554)**	**44,884**	**1**	**(78,669)**
Net (short)/long position	**(38,455)**	**216,012**	**9,130**	**186,687**

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

(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, foreign currency indexed loans amounting to 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 31 December 2007 and 2006 would have increased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2007		**31 December 2006**	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	24,286	28,658	4,918	8,510
EUR	3,787	6,064	15,102	17,113
Other currencies	1,812	1,846	(1,749)	(1,749)
Total, net	**29,885**	**36,568**	**18,271**	**23,874**

(*) 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 31 December 2007 and 2006 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

		31 December 2007	**31 December 2006**
	Change in index	**Equity**	**Equity**
ISE – 100 (IMKB100)	10%	5,718	5,739

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 24,164,469 (31 December 2006: YTL 18,715,612), whereas the carrying amount is YTL 24,122,032 (31 December 2006: YTL 18,706,855) in the accompanying consolidated balance sheet as at 31 December 2007.

Fair value of security investments is YTL 11,163,719 (31 December 2006: YTL 10,471,217), whereas the carrying amount is YTL 11,153,188 (31 December 2006: YTL 10,470,803) in the accompanying consolidated balance sheet as at 31 December 2007.

(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 which was effective starting from 1 June 2007, "Computation of Value of Operational Risk" of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette numbered 26333 and dated 1 November 2006 and the BRSA circular numbered BDDK.BYD.126.01 and dated 7 February 2008 by using gross profit of the last three years 2004, 2005 and 2006. The amount calculated as YTL 400,119 as at 31 December 2007 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk is amounting to YTL 5,001,488.

(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 31 December 2007 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 31 December 2007 and 2006 was as follows:

	31 December 2007	31 December 2006
Tier 1 capital	5,200,864	4,629,429
Tier 2 capital	246,728	190,651
Deductions from capital	(472,586)	(249,345)
Total regulatory capital	4,975,006	4,570,735
Risk-weighted assets	28,079,549	21,290,916
Value at market risk	675,163	353,200
Operational risk (*)	5,001,488	-
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.74	21.12
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	15.41	21.39

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

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

31 December 2007	Retail Banking	Corporate Banking	Investment Banking	Other Operations	Total Banking	Insurance	Leasing	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating profit	(178,216)	946,047	1,383,313	145,761	2,296,905	412,787	7,747	13,151	26,660	9,794	2,767,044	(44,077)	2,722,967
Undistributed expenses	-	-	-	(1,154,874)	(1,154,874)	(374,079)	(21,843)	(45,649)	(11,533)	(23,709)	(1,631,687)	65,734	(1,565,953)
Operating profit	**(178,216)**	**946,047**	**1,383,313**	**(1,009,113)**	**1,142,031**	**38,708**	**(14,096)**	**(32,498)**	**15,127**	**(13,915)**	**1,135,357**	**21,657**	**1,157,014**
Profit before taxes	(178,216)	946,047	1,383,313	(1,009,113)	1,142,031	38,708	(14,096)	(32,498)	15,127	(13,915)	1,135,357	21,657	1,157,014
Income tax expense	-	-	-	(101,343)	(101,343)	(4,891)	504	(1,186)	(1,560)	-	(108,476)	1,301	(107,175)
Net profit for the year	**(178,216)**	**946,047**	**1,383,313**	**(1,110,456)**	**1,040,688**	**33,817**	**(13,592)**	**(33,684)**	**13,567**	**(13,915)**	**1,026,881**	**22,958**	**1,049,839**

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))

Segment reporting *(continued)*

Business segments *(continued)*

31 December 2006	Retail Banking	Corporate Banking	Investment Banking	Other Operations	Total Banking	Insurance	Leasing	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating profit	(80,765)	736,964	1,126,884	334,974	2,118,057	214,603	15,007	1,943	19,407	81,128	2,450,145	(33,301)	2,416,844
Undistributed expenses	-	-	-	(1,077,997)	(1,077,997)	(237,738)	(7,028)	(474)	(9,168)	(35,596)	(1,368,001)	103,003	(1,264,998)
Operating profit	**(80,765)**	**736,964**	**1,126,884**	**(743,023)**	**1,040,060**	**(23,135)**	**7,979**	**1,469**	**10,239**	**45,532**	**1,082,144**	**69,702**	**1,151,846**
Profit before taxes	(80,765)	736,964	1,126,884	(743,023)	1,040,060	(23,135)	7,979	1,469	10,239	45,532	1,082,144	69,702	1,151,846
Income tax expense	-	-	-	(246,988)	(246,988)	(5,660)	(89)	(318)	(1,165)	0	(254,220)	(1,534)	(255,754)
Net profit for the year	**(80,765)**	**736,964**	**1,126,884**	**(990,011)**	**793,072**	**(28,795)**	**7,890**	**1,151**	**9,074**	**45,532**	**827,924**	**68,168**	**896,092**

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

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

6. Cash and balances with the Central Bank

	31 December 2007	31 December 2006
Cash on hand	422,143	412,477
Balances with the Central Bank excluding reserve deposits	104	295,923
Others	1,345	612
Total cash and balances with the Central Bank	**423,592**	**709,012**

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

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

	31 December 2007	31 December 2006
Cash on hand	422,143	412,477
Balances with the Central Bank	104	295,923
Receivable from reverse repurchase agreements	715,835	120,922
Loans and advances to banks with original maturity less than three months	2,877,940	3,911,301
Others	1,345	612
	4,017,367	**4,741,235**
Blocked bank deposits	(64,606)	(45,791)
Total cash and cash equivalents in the statement of cash flows	**3,952,761**	**4,695,444**

7. Financial assets at fair value through profit or loss

	31 December 2007		31 December 2006	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Eurobonds issued by the Turkish Government	238,189	319,957	356,488	462,055
Government bonds in YTL	109,397	96,016	94,631	94,802
Treasury bills in YTL	-	-	3,000	3,303
		415,973		**560,160**
Equity and other non-fixed income instruments:				
Listed shares		905		1,470
Investment funds		2,027		10,454
Derivatives held for trading		39,113		10,026
		42,045		**21,950**
Total financial assets at fair value through profit or loss		**458,018**		**582,110**

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

For the year ended 31 December 2007, net income from trading of financial assets amounting to YTL 94,632 (31 December 2006: YTL 48,387) in total is included in “trading income, net”.

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

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:

	31 December 2007		31 December 2006	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	140,098	191,407	153,293	198,687
Deposited at Istanbul Stock Exchange ("ISE") for Capital Markets Board	200	169	2,092	2,712
Blocked Equity Shares	147	490	-	-
		192,066		**201,399**

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.

	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**
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))

Financial assets at fair value through profit or loss *(continued)*

	31 December 2006					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 year**	**Over 5 year**	**Total**
Currency swaps:						
Purchases	-	-	36,958	-	-	**36,958**
Sales	-	-	36,817	-	-	**36,817**
Currency forwards:						
Purchases	-	3,678	1,241	-	-	**4,919**
Sales	-	3,677	1,241	-	-	**4,918**
Cross currency interest rate swaps:						
Purchases	-	-	-	-	83,160	**83,160**
Sales	-	-	-	-	88,200	**88,200**
Interest rate swaps:						
Purchases	-	-	-	30,744	82,244	**112,988**
Sales	-	-	-	29,499	74,928	**104,427**
Currency, interest rate and investment security options:						
Purchases	-	-	-	-	2	**2**
Sales	-	-	-	-	-	**-**
Total of purchases	-	3,678	38,199	30,744	165,406	**238,027**
Total of sales	-	3,677	38,058	29,499	163,128	**234,362**
Total of transactions	**-**	**7,355**	**76,257**	**60,243**	**328,534**	**472,389**

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:

	31 December 2007		31 December 2006	
	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	132,150	120,922

Accrued interest on receivables from repurchase agreements amounting to YTL 335 (31 December 2006: YTL 207) is included in the carrying amount of corresponding assets.

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

	31 December 2007		31 December 2006	
	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	191,407	137,505	198,687	154,114
Investment securities	2,315,737	2,015,930	1,684,155	1,334,134
	2,507,144	**2,153,435**	**1,882,842**	**1,488,248**

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

Repurchase agreements *(continued)*

Accrued interest on obligations under repurchase agreements amounting to YTL 114,436 (31 December 2006: YTL 21,407) is included in the carrying amount of corresponding liabilities.

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

9. Loans and advances to banks

As at 31 December 2007 and 2006, loans and advances to banks comprise the followings:

	31 December 2007			31 December 2006		
	YTL	**Foreign Currency**	**Total**	**YTL**	**Foreign Currency**	**Total**
Loans and advances to banks – demand:						
Domestic banks	29,046	7,945	36,991	46,364	17,294	63,658
Foreign banks	40	145,376	145,416	144	126,331	126,475
	29,086	**153,321**	**182,407**	**46,508**	**143,625**	**190,133**
Loans and advances to banks – time:						
Domestic banks	766,771	23,728	790,499	1,035,517	71,222	1,106,739
Foreign banks	64,228	1,852,018	1,916,246	256,470	2,358,517	2,614,987
	830,999	**1,875,746**	**2,706,745**	**1,291,987**	**2,429,739**	**3,721,726**
Total loans and advances to banks	**860,085**	**2,029,067**	**2,889,152**	**1,338,495**	**2,573,364**	**3,911,859**

As at 31 December 2007, loans and advances-demand at foreign banks include blocked accounts of YTL 64,606 (31 December 2006: YTL 45,791) held against the "Diversified Payment Rights" securitizations and insurance business.

10. Loans and advances to customers

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

	31 December 2007	**31 December 2006**
Corporate loans	16,274,691	13,071,531
Consumer loans	6,012,036	4,315,816
Credit cards	561,420	641,638
Loans and advances to financial institutions	932,047	380,779
Total performing loans	23,780,194	18,409,764
Non-performing loans	1,191,703	1,059,286
Total gross loans	**24,971,897**	**19,469,050**
Finance lease receivables, net of unearned income	330,217	290,166
Factoring receivables	63,580	47,015
Allowance for possible loan losses from loans and receivables and finance lease receivables	(1,243,662)	(1,099,376)
Loans and advances to customers, net	**24,122,032**	**18,706,855**

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

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:

	31 December 2007	31 December 2006
Reserve at the beginning of the year	1,099,376	1,090,090
Adjustment for currency translation	(739)	2,770
Provision for possible loan losses	374,558	368,884
Recoveries	(228,308)	(361,487)
Provision, net of recoveries	1,244,887	1,100,257
Loans written off during the year	(1,225)	(881)
Reserve at the end of year	**1,243,662**	**1,099,376**

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:

	31 December 2007	31 December 2006
Finance lease receivables, net of unearned incomes	283,834	252,276
Add: non-performing lease receivables	46,383	37,890
Total finance lease receivables *(Note 10)*	330,217	290,166
Less: allowance for possible losses on lease receivables	(46,383)	(37,890)
	283,834	**252,276**

	31 December 2007	31 December 2006
Due within one year	149,616	139,088
Due between 1 and 5 years	184,126	160,387
Finance lease receivables, gross	333,742	299,475
Unearned income	(49,908)	(47,199)
Finance lease receivables, net	**283,834**	**252,276**
Due within one year	127,416	117,249
Due between 1 and 5 years	156,418	135,027
Finance lease receivables, net	**283,834**	**252,276**

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

12. Investment securities

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

	31 December 2007	31 December 2006
Available-for-sale financial assets	9,488,837	10,190,352
Held to maturity securities	1,664,351	280,451
Total investment securities	**11,153,188**	**10,470,803**

Available-for-sale financial assets:

	31 December 2007		31 December 2006	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in YTL	6,866,981	6,712,711	6,589,891	6,392,223
Eurobonds issued by the Turkish Government	1,264,972	1,349,066	1,954,950	2,055,568
Government bonds in foreign currencies	1,334,482	1,340,183	1,426,091	1,451,226
Bonds issued by foreign banks	71,766	72,005	42,175	42,765
Corporate bonds	8,281	8,061	-	-
Treasury bills in YTL	5,221	5,190	253,972	246,574
		9,487,216		**10,188,356**
Equity and other non-fixed income instruments:				
Listed shares	617	1,621	664	1,996
		1,621		**1,996**
Total available-for-sale financial assets		**9,488,837**		**10,190,352**

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

	31 December 2007		31 December 2006	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Financial Institutions for repurchase transactions	2,153,159	2,268,582	1,535,006	1,617,337
Deposited at Central Bank of Turkey for interbank transactions	502,166	547,114	1,552,000	1,602,423
Deposited at ISE for repurchase transactions	360,000	292,367	285,000	223,166
Deposited at Central Bank of Turkey for foreign currency money market transactions	97,000	107,786	42,000	47,420
Deposited at Central Bank of Turkey for repurchase transactions	20,009	21,635	843	911
Deposited at Clearing House	20	19	439,020	477,588
Others	317,703	288,419	382,110	370,916
		3,525,922		**4,339,761**

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

Investment securities *(continued)*

Held to maturity securities:

	31 December 2007			31 December 2006		
	Face Value	**Carrying Value**	**Fair Value**	**Face Value**	**Carrying Value**	**Fair Value**
Debt instruments:						
Government bonds in YTL	1,458,250	1,457,965	1,465,476	96,711	92,322	90,774
Eurobonds issued by the Turkish Government	134,297	143,470	146,175	89,540	95,220	98,321
Certificate of deposits	34,950	35,170	35,170	42,441	42,319	42,319
Government bonds in foreign currencies	18,405	19,021	19,357	32,726	34,020	33,418
Bonds issued by foreign banks	8,561	8,725	8,704	16,040	16,570	16,033
Total held to maturity securities		**1,664,351**	**1,674,882**		**280,451**	**280,865**

The Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of YTL 700,000, YTL 410,000 and YTL 140,000 to held-to-maturity portfolio at their fair values of YTL 704,709, YTL 384,977 and YTL 148,065, respectively as of their reclassification dates during the year. The value increases of such securities amounting YTL 2,107, YTL 3,002 and YTL 109, respectively, are recorded under the shareholders' equity and 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 US Dollar 40,000,000 and EUR 20,000,000 to held-to-maturity portfolio at their fair values of US Dollar 41,706,400 and EUR 19,475,000 as of their reclassification dates. The value increases of such securities amounting to US Dollar 774,816 and EUR (448,178), respectively, 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:

	31 December 2007		31 December 2006	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Central Bank of Turkey for interbank transactions	1,190,000	1,184,759	-	-
Deposited at foreign financial institutions for repurchase transactions	150,000	165,914	-	-
Deposited in financial institutions for repurchase transactions	25,682	26,055	62,912	65,918
Others	105,200	98,597	220,146	214,533
		1,475,325		**280,451**

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

13. Investment in equity participations

	31 December 2007			31 December 2006		
	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	7,010	-	7,010
Bayek Tedavi ve Sağlık Hizmetleri AŞ	35,598	(32,165)	3,433	35,528	(32,329)	3,199
Kıbrıs Vakıflar Bankası Ltd.	3,119	-	3,119	3,375	-	3,375
Vakıf İnşaat Restorasyon AŞ	8,502	(5,867)	2,635	8,502	(423)	8,079
Kredi Kayıt Bürosu AŞ	1,792	-	1,792	1,792	-	1,792
Bankalararası Kart Merkezi AŞ	1,369	-	1,369	1,175	-	1,175
Vadeli İşlem ve Opsiyon Borsası AŞ	1,170	-	1,170	1,170	-	1,170
Vakıf Gayrimenkul Ekpertiz ve Değ. AŞ	897	-	897	866	-	866
Güney Ege Enerji İşlt. Ltd. Şti.	219,271	(218,482)	789	221,591	(217,793)	3,798
Vak-Bel İthalat A.Ş.	12,919	(12,919)	-	12,919	(12,919)	-
İzmir Enternasyonal Otelcilik AŞ	6,461	(6,461)	-	6,461	-	6,461
İstanbul Reasürans AŞ	2,132	(2,132)	-	2,132	(2,132)	-
Ortadoğu Yazılım Hizmetleri	-	-	-	15,133	-	15,133
EGS Gayrimenkul Yatırım Ort. AŞ	-	-	-	122	-	122
Others	3,704	(477)	3,227	1,638	(477)	1,161
	322,648	**(280,170)**	**42,478**	**336,607**	**(266,073)**	**70,534**
Quoted investments:						
Türkiye Sınai Kalkınma Bankası AŞ	65,144	-	65,144	65,495	-	65,495
Others	6,784	-	6,784	7,273	(424)	6,849
	71,928	**-**	**71,928**	**72,768**	**(424)**	**72,344**
	394,576	**(280,170)**	**114,406**	**409,375**	**(266,497)**	**142,878**

In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi ("Güney Enerji") for a consideration of US Dollar 103,500,000 (YTL 161,977) from a borrower experiencing financial difficulty and transferred this shareholding to a newly established participation in 2001, Vakıf Enerji ve Madencilik AŞ ("Vakıf Enerji"), for the same consideration. While, Güney Enerji was holding the operating rights for Yatağan, Yeniköy and Kemerköy power generation plants which are within the scope of privatization programme, the operating of related plants 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 per the resolution of the Board of Directors of the Bank dated 27 December 2007, it was decided to sell the shares of Türkiye Sınai ve Kalkınma Bankası AŞ, having a carrying value YTL 65,144, measured at its fair value, through stock exchange or private placement.

As per the resolution of the Board of Directors of the Bank dated 27 December 2007, it was decided to dispose the shares in İzmir Enternasyonel Otelcilik AŞ through sale to the other existing shareholders.

Investment in equity participations *(continued)*

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.

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 Ekspertiz ve Değerleme AŞ is in conformity with the regulations.

As per the resolution of the Board of Directors of the Bank dated 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 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.

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.

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

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

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

14. Property and equipment and intangible assets

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

	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))

Property and equipment and intangible assets *(continued)*

	1 January 2006	Additions	Disposals	31 December 2006
Cost:				
Land and buildings	824,772	31,249	(36,019)	820,002
Motor vehicles	29,140	1,961	(1,640)	29,461
Furniture, office equipment and leasehold improvements	434,894	45,572	(23,888)	456,578
Other tangibles	16,715	13,474	(3,011)	27,178
	1,305,521	**92,256**	**(64,558)**	**1,333,219**
Accumulated depreciation:				
Land and buildings	154,683	25,576	(14,957)	165,302
Motor vehicles	23,759	3,221	(1,494)	25,486
Furniture, office equipment and leasehold improvements	359,286	47,913	(21,760)	385,439
Other tangibles	8,769	1,012	(2,982)	6,799
	546,497	**77,722**	**(41,193)**	**583,026**
Net Book Value	**759,024**	**14,534**	**(23,365)**	**750,193**

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

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

15. Other assets

	31 December 2007	31 December 2006
Reserve deposit at Central Bank of Turkey	2,070,141	2,077,523
Private pension system receivables	291,872	189,770
Asset held for resale	285,825	337,059
Prepaid expenses	217,753	58,120
Receivables from insurance activities	199,010	144,810
Receivables from term sales of fixed assets	138,749	175,827
Investment properties	56,871	62,103
Receivables from credit card payments	30,087	37,630
Deferred acquisition cost, net of reinsurance share	29,333	40,135
Miscellaneous receivables	17,057	84,886
Prepaid taxes and taxes and funds to be refunded	1,601	1,747
Others	120,305	108,470
Total other assets	**3,458,604**	**3,318,080**

At 31 December 2007, reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its 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 11.81% for YTL, 1.95% for US Dollar and 1.80% for Euro as at 31 December 2007.

YTL 285,825 (31 December 2006: YTL 337,059) of the other assets is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators.

16. Deposit from banks

Deposits from banks comprise the following:

	31 December 2007	31 December 2006
Payable on demand	1,224	3,129
Term deposits	750,342	596,284
Total deposit from banks	**751,566**	**599,413**

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

17. Deposit from customers

Deposits from customers comprise the following:

	31 December 2007		31 December 2006	
	Demand Deposit	**Time Deposit**	**Demand Deposit**	**Time Deposit**
Saving deposits	682,210	6,182,520	729,350	5,258,908
Foreign currency deposits	811,090	5,712,714	1,350,997	6,062,291
Residents in Turkey	769,363	5,263,766	1,276,939	5,609,285
Residents in abroad	41,727	448,948	74,058	453,006
Commercial deposits	664,908	4,248,067	666,345	2,953,572
Public sector deposits	971,314	2,013,372	1,037,666	1,683,737
Other	409,804	6,595,733	553,642	4,171,947
Total deposit from customers	**3,539,326**	**24,752,406**	**4,338,000**	**20,130,455**

18. Funds borrowed

Funds borrowed comprise the followings with their original maturities:

	31 December 2007		31 December 2006	
	YTL	**Foreign currency**	**YTL**	**Foreign currency**
Short-term funds	52,619	1,412,772	60,950	1,946,448
Short-term portion of long term funds	-	65,584	-	74,335
Total short-term funds	52,619	1,478,356	60,950	2,020,783
Medium/long term funds	121,963	3,506,905	164,029	3,279,887
Total funds borrowed	**174,582**	**4,985,261**	**224,979**	**5,300,670**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 11.66% (31 December 2006: 14.27%) of the Group’s liabilities. There is no risk concentration on funding sources of the Bank.

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

On 20 December 2006, the Bank has obtained syndication loan of US Dollar 700 million comprised of three tranches having 1, 2 and 3 years of maturity and interest rate Libor+0.525%, Libor+0.626% and Libor+0.826%, respectively, with the participation of 26 international banks through club deal. On 3 December 2007, the Bank has renewed syndication loan of US Dollar 375 million with one year of maturity and Libor+0.25% 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.

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

19. Other liabilities and provisions

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

	31 December 2007	31 December 2006
Private pension system payables	295,343	192,461
Life mathematical provisions	283,402	268,632
Blocked accounts against expenditures of card holders	275,684	244,373
Unearned premium reserve	190,328	122,552
Reserve for employee severance indemnity	121,321	109,440
Transfer orders	101,158	99,042
Provision for outstanding claims	98,892	82,819
Provision for non-cash loans	82,391	98,860
Reserve for short term employee benefits	79,945	51,000
Unearned income	73,998	37,741
Clearing account	72,495	11,625
Blocked accounts	58,843	46,894
Payables to suppliers relating to financial lease activities	50,185	19,919
Miscellaneous payables	47,912	20,228
Payables due to insurance activities	33,679	41,041
Derivative financial instruments held for trading purpose	22,290	3,765
Vacation pay liability	21,146	10,311
Withholding taxes	19,569	16,313
Factoring payables	11,480	1,784
Others	209,364	172,454
Total other liabilities and provisions	**2,149,425**	**1,651,254**

Insurance business related provisions are detailed in the table below:

Unearned premium reserve	31 December 2007	31 December 2006
At the beginning of the year	122,552	106,608
Premiums written during the year	381,526	237,980
Premiums earned during the year	(313,750)	(222,036)
At the end of the year	**190,328**	**122,552**

Provision for outstanding claims	31 December 2007	31 December 2006
At the beginning of the year	82,819	73,484
Cash paid for claims settled during the year	(233,564)	(201,373)
Increase during the year	249,637	210,708
At the end of the year	**98,892**	**82,819**

Life mathematical provisions	31 December 2007	31 December 2006
At the beginning of the year	268,632	280,067
Entrance during the year	208,900	69,919
Withdrawals during the year	(194,620)	(81,104)
Change in unrecognized gain from backing assets	490	(250)
At the end of the year	**283,402**	**268,632**

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

Other liabilities and provisions *(continued)*

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

Reserve for employee severance indemnity	31 December 2007	31 December 2006
At 1 January	109,440	94,957
Currency translation difference	(8)	(340)
Payment during the year	(7,687)	(280)
Provision for the year	19,576	15,103
At the end of the year	**121,321**	**109,440**

20. Income taxes

Major components of income tax expense:

	31 December 2007	31 December 2006
Current income tax		
Current income tax charge	(139,143)	(195,861)
Deferred income tax		
Relating to origination and reversal of temporary differences	31,968	(59,893)
Income tax expense	**(107,175)**	**(255,754)**

The current tax liabilities and prepaid taxes are detailed below:

	31 December 2007	31 December 2006
Current tax provision calculated	249,956	184,283
Prepaid taxes during the year	(165,939)	(95,070)
Current tax liabilities	**84,017**	**89,213**

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

Income taxes *(continued)*

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

	31 December 2007	**Tax rate (%)**	**31 December 2006**	**Tax rate (%)**
Net profit from ordinary activities before income tax and minority interest	**1,157,014**		**1,151,846**	
Taxes on income per statutory tax rate	(231,403)	(20.00)	(230,369)	(20.00)
Effect of income not subject to tax	12,720	1.10	3,039	0.26
Disallowable expenses	(598)	(0.05)	-	-
Tax rate change	-	-	(34,072)	(2.96)
Tax Refund (*)	125,187	10.82	-	-
Effect of others, net	(13,081)	(1,13)	5,648	0.49
Provision for taxes on income	**(107,175)**	**(9.26)**	**(255,754)**	**(22.20)**

(*) 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 Banking 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 claiming the taxes paid. 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.

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

	31 December 2007	**31 December 2006**
	Deferred tax Assets/ (Liabilities)	**Deferred tax Assets/ (Liabilities)**
Deferred taxes:		
Provision for Retirement pay liability and Unused Vacation	27,134	23,771
Valuation differences of premises and equipment, intangibles and assets held for resale	26,702	27,937
Difference in valuation of equity participations	1,222	(372)
Differences in valuation of financial assets	(26,460)	(33,136)
Others	5,902	(4,251)
Total deferred tax assets	**34,500**	**13,949**
Differences in valuation of financial assets	(5,861)	-
Total deferred tax liabilities	**(5,861)**	**-**

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

21. Shareholders' equity

As at 31 December 2007, the authorized nominal share capital of the Bank amounted to YTL 2,500,000 (31 December 2006: YTL 2,500,000).

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 paid-in capital is divided into 2.500.000.000 shares with each has a nominal value of 1 New Turkish Lira.

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

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

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

The retained earnings amounting to YTL 1,173,434 (31 December 2006: YTL 509,489) include legal reserves amounting to YTL 212,827 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 31 December 2007 net minority interest amounts to YTL 269,806 (31 December 2006: YTL 268,336).

Minority interest is detailed as follows:

	31 December 2007	**31 December 2006**
Capital and other reserves	347,740	341,953
Retained earnings	(78,963)	(101,137)
Net profit for the year	1,029	27,520
Total minority interest	**269,806**	**268,336**

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

Shareholders equity *(continued)*

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

	31 December 2007	31 December 2006
Balance at the beginning of the year	54,049	276,164
Net gains/(losses) from changes in fair value	124,394	(304,197)
Related deferred and current income taxes	(24,573)	85,386
Net gains transferred to the statement of income on disposal	(30,044)	(6,066)
Related deferred and current income taxes	2,899	2,762
Balance at the end of the year	**126,725**	**54,049**

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

	31 December 2007	31 December 2006
Cash loans	7,543	12,992
Non-cash loans	45,140	222,438
Deposits taken	1,365,301	229,422

Transactions

	31 December 2007	31 December 2006
Interest expense	8,826	7,258
Other operating income	293	122
Other operating expense	36	25

Directors' Remuneration

The key management and the members of the Board of Directors received remuneration and fees amounting to YTL 8,664 for the year ended 31 December 2007 (31 December 2006: YTL 7,902).

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

23. Other Income

As at 31 December 2007 and 2006, other income comprised the following:

	31 December 2007	31 December 2006
Earned premiums	313,750	222,036
Written premiums	381,526	237,980
Change in unearned premium reserve	(67,776)	(15,944)
Excess fee charged to customers for communication expenses	55,104	33,424
Income from sale of fixed assets	37,236	10,895
Reversals from prior year's provisions	16,501	135,655
Pension business income	10,805	8,395
Income from associates	7,767	49,773
Rent income	7,767	8,211
Other	50,692	52,013
Total	**499,622**	**520,402**

24. Salaries and employee benefits

As at 31 December 2007 and 2006, salaries and employee benefits comprised the following:

	31 December 2007	31 December 2006
Staff costs		
Wages and salaries	(271,714)	(225,501)
Employer's share of social security premiums	(70,685)	(61,881)
Other fringe benefits	(244,310)	(196,512)
Provision for employee termination benefits and liability for unused vacations	(22,716)	(15,997)
Total	**(609,425)**	**(499,891)**

The average number of employees during the year is:

	31 December 2007	31 December 2006
The Bank	8.172	7.424
Subsidiaries	1.584	1.299
Total	**9.756**	**8.723**

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

25. Other expenses

As at 31 December 2007 and 2006, other expenses comprised the following:

	31 December 2007	31 December 2006
Insurance claims paid	(233,564)	(201,373)
Other provision expenses	(89,966)	(22,277)
Rent expenses	(63,195)	(44,673)
Operating lease charges	(51,208)	(40,773)
Advertising expenses	(41,299)	(37,093)
Communication expenses	(38,534)	(32,567)
Life mathematical provisions	(34,991)	(41,738)
Saving Deposit Insurance Fund premium	(28,910)	(24,150)
Office supplies	(28,520)	(10,416)
Pension business expenses	(17,244)	(13,424)
Change in provision for outstanding claims	(16,073)	(9,335)
Cleaning service expenses	(16,062)	(13,736)
Computer usage expenses	(15,992)	(10,483)
Loss on sale of assets	(15,298)	(23,734)
Maintenance expenses	(13,301)	(9,875)
Energy expenses	(11,220)	(9,665)
Chartered accountants	(8,324)	(7,304)
Hosting expenses	(6,365)	(5,558)
Transportation expenses	(6,282)	(7,173)
BRSA participation fee	(5,592)	(5,555)
Donations	(4,044)	(15,944)
Other various administrative expenses	(84,309)	(108,862)
Total	**(830,293)**	**(695,708)**

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:

	31 December 2007	31 December 2006
Letters of guarantee	4,362,737	3,400,879
Letters of credit	1,118,055	1,227,088
Acceptance credits	456,865	152,842
Other guarantees	3,468	9,814
Total non-cash loans	5,941,125	4,790,623
Credit card limit commitments	3,067,930	1,611,354
Other commitments	2,962,312	1,391,775
Total	**11,971,367**	**7,793,752**

Pending tax audits:

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

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

27. Subsidiaries and associates

The table below sets out the Subsidiaries and shows their shareholding structure as at 31 December 2007:

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.

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.

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

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

Subsidiaries and associates *(continued)*

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

28. Significant events

The Bank's management has decided to implement growth target 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 programme, one of the biggest card programmes in Turkey. The Bank has authorized Bank's general manager for signing and preparation of the agreement.

29. Subsequent events

- As per the resolution of the Board of Directors of the Bank on 15 May 2008, it is decided to start sale process of the shares of Güneş Sigorta AŞ and Vakıf Emeklilik AŞ which are subject to consolidation.
- In accordance with the resolution carried by the 54th Annual General Assembly on 21 March 2008, net profit of the year 2007 of the Bank has been decided to be distributed on a date determined by the Bank's Board of Directors no later than 31 May 2008, as indicated on the table below.

	Profit distribution table of the year 2007
Net profit of the year	**1,030,700**
Deferred tax income	(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 shareholders	**142,200**

Subsequent events *(continued)*

- 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.

- In accordance with the Sales Agreement as of 7 March 2008, the sale of the Bank's shares in Vakıf Girişim Sermayesi Yatırım Ortaklığı AŞ to Multinet Kurumsal Hizmetler AŞ with a percentage of 31.00% (consisting of (A) Group 25.00% and (B) Group 6.00% shares) and the sale of the shares with a percentage of 0.15% which consists of the (B) Group 0.05% shares of Vakıf Finansal Kiralama AŞ, (B) Group 0.05% shares of Vakıf Deniz Finansal Kiralama AŞ and the (B) Group 0.05% shares of the Güneş Sigorta AŞ to CFK Kurumsal Finansman Danışmanlık AŞ have been agreed on. The selling price for the securities with a book value of YTL 3,251 in the consolidated financial statements has been determined as YTL 3,129. As of the report date, for the specified selling to actualise, Capital Markets Board's authorization is needed.