

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED  
30 JUNE 2005**

TO THE BOARD OF DIRECTORS  
TÜRKİYE VAKIFLAR BANKASI T.A.O.  
ANKARA

## REVIEW REPORT

1. We have reviewed the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası T.A.O. (the “Bank”) and its subsidiaries (together the “Group”) as at 30 June 2005, and the related statements of income, shareholders’ equity and cash flow for the six months period then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to issue a report on these financial statements based on our review.
2. We conducted our review in accordance with the International Standards on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.
3. In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi (“Güney Enerji”) for a consideration of USD 103,500,000 (YTL 139,208 Thousand) from a borrower experiencing financial difficulty and transferred this shareholding to a newly established participation in 2001, Vakıf Enerji ve Madencilik A.Ş. (“Vakıf Enerji”), for the same consideration. Güney Ege Enerji Limited Şirketi holds the operating rights for Yatağan, Yeniköy and Kemerköy thermal power generation plants which are within the scope of the privatization programme. Commencement of operation of these power plants did not occur. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. 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 Ege Enerji Limited Şirketi was entitled to a total compensation of USD 90,000,000 (YTL 121,050 Thousand). Vakıf Enerji will be paid an amount of compensation net of taxes according to its 45% shareholding. The indexed cost of the Bank’s 45% interest in Güney Enerji as at 30 June 2005 is YTL 218,883 Thousand and a provision amounting to YTL 90,000 Thousand has been provided by the Bank in addition to the recovered amount as a result of the compensation explained above. The Bank’s management believes that contracts for the operating rights will become active in the future and therefore there is no need for any additional impairment of the YTL 74,000 Thousand difference between carrying value of this equity investment with the provision already made and the compensation recovered. In our opinion, an additional impairment of this equity investment should be recorded although the amount of such impairment could not be determined.

4. Based on our review, except for such adjustments as may be required in respect of the matter set out in the paragraph 3 above, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements as of 30 June 2005 are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

Ankara, 30 September 2005

**DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.**  
Member of **DELOITTE TOUCHE TOHMATSU**

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS AS AT**  
**30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

<u>Assets</u>	<u>Note</u>	<b>30.06.2005</b> <b>000 YTL</b>	<b>31.12.2004</b> <b>000 YTL</b>
Liquid Assets	4	217,755	189,063
Balances With The Central Bank	5a	396,936	572,917
Balances With Banks	6	1,858,607	2,177,624
Interbank Funds Sold		2,020,800	1,136,348
Receivables from Reverse Repurchase securities	7c	779,831	-
Trading Securities Portfolio	7a	1,580,336	3,316,509
Available for Sale Portfolio	7b	8,747,396	5,902,779
Reserve Deposits at the Central Bank	5b	958,946	997,069
Loans – net	8	9,445,756	8,857,812
Trade Receivables	9	183,276	161,256
Sundry Debtors	10	152,244	87,396
Equity Participations – net	11	310,518	291,020
Held to Maturity Securities	7c	832,125	1,064,788
Premises & Equipment – net	12	1,264,336	1,389,622
Other Assets	13	201,379	203,005
<b>TOTAL ASSETS</b>		<b><u>28,950,241</u></b>	<b><u>26,347,208</u></b>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

<u>Liabilities</u>	<u>Note</u>	<b>30.06.2005</b> <b>000 YTL</b>	<b>31.12.2004</b> <b>000 YTL</b>
Deposits			
Demand		3,669,755	3,346,263
Time		16,715,972	15,023,531
Expense accruals on deposits		221,229	158,295
	14	<u>20,606,956</u>	<u>18,528,089</u>
Commitments to Repurchase Securities		805,960	634,138
Borrowings Funding Loans	15	3,064,585	3,340,618
Funds	16	158,734	171,520
Trade Payables	17	140,639	75,667
Deposits and Advances Taken for Imports		84,361	137,987
Sundry Creditors	18	44,435	73,126
Taxes and Dues Payable	19a	69,406	196,584
Provisions	20	866,478	650,192
Other Liabilities		364,947	249,744
		<u>26,206,501</u>	<u>24,057,665</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	23	2,384,479	1,772,023
Revaluation Fund	24	203,606	101,348
Retained Earnings		(101,875)	129,301
Minority Interest	22	257,530	286,871
		<u>2,743,740</u>	<u>2,289,543</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>28,950,241</b></u>	<u><b>26,347,208</b></u>
<b>COMMITMENTS AND CONTINGENCIES</b>	29	<u><b>7,574,912</b></u>	<u><b>6,763,252</b></u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIODS ENDED 30 JUNE 2005 and 30 JUNE 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

	<u>Note</u>	<b>30.06.2005</b> <b>000 YTL</b>	<b>30.06.2004</b> <b>000 YTL</b>
Interest Income – Banking	25	1,915,098	1,481,885
Interest (Expense) – Banking	26	<u>(1,064,249)</u>	<u>(922,680)</u>
Net Interest Income – Banking		850,849	559,205
Loan Loss Provision (Expense)		<u>(142,572)</u>	<u>(130,218)</u>
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISIONS</b>		708,277	428,987
Non-Interest Income	27	1,164,238	1,208,570
Non-Interest (Expense)	28	(1,356,356)	(1,294,295)
Income from Associates		<u>6,021</u>	<u>1,171</u>
<b>INCOME BEFORE TAX AND MONETARY GAIN</b>		522,180	344,433
Taxation (-)	19b	<u>(95,487)</u>	<u>19,154</u>
<b>INCOME BEFORE MONETARY (LOSS)</b>		426,693	363,587
Monetary (Loss)		<u>(62,005)</u>	<u>(37,638)</u>
<b>NET INCOME</b>		364,688	325,949
Attributable to:			
Equity holders of T. Vakıflar Bankası		357,510	264,072
Minority interest		7,178	61,877
<b>Total</b>		<u>364,688</u>	<u>325,949</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**INFLATION ADJUSTED AND CONSOLIDATED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 30 JUNE 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

	<b>Paid in Capital 000 YTL</b>	<b>Revaluation Fund 000 YTL</b>	<b>Retained Earnings 000 YTL</b>	<b>Minority Interest 000 YTL</b>	<b>Total 000 YTL</b>
<b>As at 31.12.2003</b>	1,772,023	139,306	(688,785)	263,990	1,486,534
Changes in minority	-	-	9,736	23,319	33,055
Valuation differences for foreign subsidiaries	-	-	1,649	-	1,649
Dividends paid	-	-	(2,879)	-	(2,879)
Profit for the year	-	-	264,072	-	264,072
Additions and disposals from revaluation fund - net	-	(83,349)	-	-	(83,349)
<b>As at 30.06.2004</b>	<u>1,772,023</u>	<u>55,957</u>	<u>(416,207)</u>	<u>287,309</u>	<u>1,699,082</u>
<b>As at 31.12.2004</b>	1,772,023	101,348	129,301	286,871	2,289,543
Capital increase (*)	612,456	-	(612,456)	-	-
Changes in minority	-	-	33,993	(29,341)	4,652
Other changes	-	-	1,650	-	1,650
Valuation differences for foreign subsidiaries	-	-	(3,441)	-	(3,441)
Dividends paid	-	-	(8,432)	-	(8,432)
Profit for the period	-	-	357,510	-	357,510
Additions and disposals from revaluation fund - net	-	102,258	-	-	102,258
<b>As at 30.06.2005</b>	<u>2,384,479</u>	<u>203,606</u>	<u>(101,875)</u>	<u>257,530</u>	<u>2,743,740</u>

(\*) Increase as transfer from retained earnings has taken place in accordance with the local tax laws based on statutory figures.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 30 JUNE 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	357,510	264,072
<b>Adjustments to reconcile net income to net</b>		
<b>Cash provided by operating activities:</b>		
Depreciation and amortization	43,508	32,471
Provision for retirement pay	4,365	6,528
General loan loss provision	8,498	-
Provisions for non-cash loans	57,203	-
Insurance technical provisions and other provisions	44,421	32,749
Loan loss provisions	142,572	88,067
Other provisions	104,774	-
Decrease/(Increase) in taxation on income and deferred taxes	11,373	(77,192)
(Increase) in interbank funds sold – net	(884,452)	(192,840)
Decrease in reserve deposits at Central Bank	38,123	9,267
(Increase) in other assets	(296,972)	(97,104)
(Increase)/ Decrease in marketable securities	(773,522)	1,227,628
(Increase) in loans	(587,944)	(2,036,167)
(Increase) in receivables from reverse repurchase securities	(779,831)	-
<b>Net cash (used in) / provided from operating activities</b>	<u>(2,510,374)</u>	<u>(742,521)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) / Decrease in equity participations	(19,498)	6,981
Disposals from premises and equipment-net	168,794	196,556
<b>Net cash provided from investing activities</b>	<u>149,296</u>	<u>203,537</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits	2,078,867	(830,071)
Increase in securities under repo agreement	171,822	400,754
(Decrease) / Increase in loans used	(276,033)	313,548
(Decrease) in funds borrowed	(12,786)	(17,268)
(Decrease) in other liabilities	(29,325)	(83,667)
Change in minority interest and other items in shareholders' equity	(29,341)	(48,643)
Cash dividends paid	(8,432)	(2,881)
<b>Net cash provided from / (used in) financing activities</b>	<u>1,894,772</u>	<u>(268,228)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(466,306)</u>	<u>(807,212)</u>
<b>CASH AND CASH EQUIVALENTS AT</b>		
<b>THE BEGINNING OF THE PERIOD</b>	<u>2,939,604</u>	<u>2,186,229</u>
<b>CASH AND CASH EQUIVALENTS AT</b>		
<b>THE END OF THE PERIOD</b>	<u>2,473,298</u>	<u>1,379,017</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**1. THE BANK**

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ('the Bank') was founded on 15 January 1954 in accordance with special legal regulations. The Bank has the legal form of a joint stock company pursuant to the Banks' Act, with headquarters located in Ankara. Vakıfbank provides retail, commercial, and investment banking services through its network of 292 branches, 4 finance centers, and 4 mobile branches distributed throughout Turkey. Internationally, Vakıfbank has subsidiaries in Austria, France, and Cyprus, and a branch in New York.

**2. BASIS OF FINANCIAL STATEMENTS**

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

**Presentation of Financial Statements**

The Bank maintains its books of account in Turkish Lira and prepares its statutory financial statements in accordance with the reporting requirements of Banking Law, the Uniform Chart of Accounts issued in accordance with Banking Law, Turkish Commercial Practice and Tax Legislation. The Bank's equity participations maintain their books of account and prepare their statutory financial statements in accordance with regulations prevailing in their area of specialization, Commercial Practice and Tax Regulations.

The accompanying financial statements are based on the statutory records with adjustments and reclassifications, including restatement for the changes in the general purchasing power of the Turkish Lira, for the purpose of fair presentation in accordance with Statements of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee. IFRS adjustments and reclassifications reflected to the accompanying financial statements have not been entered in the statutory accounts of the Bank.

**Adoption of New and Revised IFRSs**

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for periods beginning 1 January 2005. The adoption of these new and revised Standards and Interpretations has not affected the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**2. BASIS OF FINANCIAL STATEMENTS (continued)**

**Adoption of New and Revised IFRSs (continued)**

IFRS 7: Financial Instruments: Disclosures

IFRIC 3: Emission Rights

IFRIC 4: Determining Whether an Arrangement Contains a Lease

IFRIC 5: Right to Interests Arising from Decommissioning, Restoration and  
Environmental  
Rehabilitation Funds

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

**Inflation Accounting**

The Group maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code and tax regulations. Prior to 2004, the statutory books have been kept on historical basis. For the year ended 31 December 2004, adjustments related to the inflation accounting have been included in the legal books in accordance with the Law No: 25524 of Banking Regulation and Supervision Agency dated July 16, 2004.

In the accompanying consolidated financial statements, restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the New Turkish Lira, as of the balance sheet date, in accordance with International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

Major characteristics those necessitate the application of IAS 29 are:

- (a) The general population prefers to keep its wealth in nonmonetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) Cumulative three-year inflation rate approaching or exceeding 100%.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**2. BASIS OF FINANCIAL STATEMENTS (continued)**

**Inflation Accounting (continued)**

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29 restatement, is a cumulative three year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey was 33.9% for the three years ended 30 June 2005 based on the wholesale price index announced by the Turkish State Institute of Statistics. Although the cumulative rate in Turkey is 33.9%, below 100%, for the three years ended 30 June 2005, other characteristics are still valid and improvements in the economic indicators do not yet lead to result in verifying to conclude that the economy is no longer hyperinflationary. Consequently, the accompanying financial statements are adjusted for the effect of changes in the general purchasing power of YTL.

The restatement has been calculated by means of conversion factors based on the Turkish countrywide wholesale prices index ("WPI") published by the State Institute of Statistics.

The index and corresponding conversion factors for the last five years are as follows:

	<u>Index</u>	<u>Adjustment Factors</u>
31 December 2001	4,951.7	1.7523
31 December 2002	6,478.8	1.3393
31 December 2003	7,382.1	1.1754
31 December 2004	8,403.8	1.0325
30 June 2005	8,677.1	1.0000

The comparative rates of currency devaluation of the Turkish Lira against the US Dollar, compared with the rates of general price inflation in Turkey according to the WPI are set out below:

<u>Year:</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Currency Deflation US \$	(0.1%)	(3.8%)	(14.6%)	13.5%	114.3%	24.4%
WPI Inflation	3.25%	13.8%	13.9%	30.8%	88.6%	32.7%

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**2. BASIS OF FINANCIAL STATEMENTS (continued)**

**Inflation Accounting (continued)**

The principal adjustments are as follows:

- Land and buildings are stated at valuation. Complete and accurate information on the original cost of some of the Bank's properties capitalized before 1980 was not available, to enable the calculation of their restated (indexed) cost. Accordingly, instead of restated cost, professional valuations have been used for such properties, determined by a firm of property valuers which is a majority-owned participation of the Bank. Additionally, the Banking Regulation and Supervision Agency (BRSA) has accepted property valuations for additional buildings for the purpose mentioned in above resulting in a revaluation fund for which the effects have been reflected in the accompanying financial statements. Additionally, the properties of one of the consolidated subsidiaries, Taksim Otelcilik A.Ş. have been appraised by the same firm and the resulting revaluation fund is also included in the financial statements. The total revaluation fund as at the balance sheet date amounts to YTL 203,606 Thousand (Note 24).
- Income statement items have been indexed to period end money values, based on monthly data, and provision expenses and depreciation have been restated.
- The gain or loss on net monetary position has been calculated.
- Balance sheet and income statement items for the periods 30 June 2005 and 31 December 2004 have also been calculated in the same way and indexed to express them in the purchasing power of Turkish Lira at 30 June 2005.

**Consolidation**

- Türkiye Vakıflar Bankası T.A.O holds a controlling shareholding in the following banks, financial sector institutions and companies (in those cases where the shareholding is less than 50%, control is nevertheless effectively exercised, usually because the minority shareholders include shareholders of the Bank):

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**2. BASIS OF FINANCIAL STATEMENTS (continued)**

**Consolidation (continued)**

	<b>Sector</b>	<b>Türkiye Vakıflar Bankası Ownership (%)</b>	<b>Auditors</b>
Vakıf Emeklilik A.Ş.	Insurance	53.90	Deloitte
Güneş Sigorta A.Ş.	Insurance	35.35	RSM Capital
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	68.55	Deloitte
Vakıf Finansal Kiralama A.Ş.	Leasing	58.71	Deloitte
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other financial	27.63	Deloitte
Vakıf Yatırım Menkul Değerler A.Ş.	Other financial	99.00	RSM Capital
World Vakıf Offshore Ltd.	Banking	82.00	Deloitte
Vakıf Finans Factoring A.Ş.	Other financial	78.39	Deloitte
Taksim Otelcilik A.Ş.	Tourism	51.00	Deloitte
Vakıfbank International Wien AG	Banking	90.00	Deloitte
Vakıf Enerji ve Madencilik A.Ş.	Energy	65.50	Deloitte

The financial statements of the above entities are consolidated with those of Türkiye Vakıflar Bankası T.A.O in the accompanying financial statements. Together they are referred to as “the Bank and its participations” or “the Group”. The method of consolidation is set out in note 3.20. The ownership percentages set out above include cross-holdings.

Although, the Bank’s ownership in Güneş Sigorta A.Ş. and Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. is below 50%, these subsidiaries are consolidated due to the fact that the Bank has additional control through voting rights owned by Vakıfbank Pension Fund which is a related party.

The Bank’s investments other than those stated above, in which the shareholding is 20% or greater, below, are accounted for using the equity method:

	<b>Effective Ownership (%)</b>
Banque Du Bosphore	20.00
Ortadoğu Yazılım Hizmetleri A.Ş.	25.23

Other investments and certain immaterial subsidiaries and associates are accounted for at cost. One major 38.19% associate is accounted for at cost, as separately disclosed in note 11.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies followed in the preparation of the accompanying financial statements are as follows:

**3.1 Accounting Convention**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Effect has been given in the financial statements to adjustments and reclassifications which have not been entered in the general books of account of the Bank and its equity participations maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

**3.2 Income and Expense Recognition**

Interest and other income and expenses are recognized on the accrual basis, except for fees and commissions for various banking services rendered and dividends from equity participations which are recognized as income when received. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

Exchange gains arising from revaluation of Turkish Lira loans which are indexed to foreign currencies are included as interest income.

**3.3 Foreign Currency Items**

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates

Assets and liabilities of the Bank denominated in foreign currencies are translated at period end Bank exchange rates. For the translation of assets and liabilities of consolidated participations TCMB (Central Bank of Republic of Turkey) rates are used.

All exchange gains and losses arising on settlement and translation of foreign currency items are included in the statement of income.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Financial instruments**

The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are fundamental to the Group's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Group's balance sheet. The Group trades in financial instruments for customer facilitation and as principal.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2005)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Financial instruments (continued)**

Investments (continued)

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value as of 30 June ended 2005. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Prior to January 1, 2005, subsequent to initial recognition, investments classified as held for trading and available-for-sale were valued at fair value in cases where fair value was reliably measured. The securities, fair value of which could not be measured reliably, were measured at amortised cost using the effective interest rate method in accordance with IAS 39 (revised 2001) paragraph 69c.

In year 2005, the Group has changed its method of subsequent measurement of investments classified as either held for trading or as available for sale due to changes in market conditions as well as changes in IAS 39. In 2005, the market became active and data from this market became available as a reliable base for "fair value" measurement. Monetary effect of the change has been reflected in June 30, 2005 financial statements in accordance with IAS 39, paragraph 55.

The Group's investments primarily represents Turkish Republic Government bonds, Treasury bills and Eurobonds which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Financial instruments (continued)**

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Off balance sheet commitments and contingencies

The Group deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

Fair value considerations

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Financial instruments (continued)**

Fair value considerations (continued)

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets. As there are a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would not differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.

Securities investments: Fair value is estimated using quoted market prices wherever applicable.

Loans: The major portion of the loans are short-term and have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Financial instruments (continued)**

Fair value considerations (continued)

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

Securities under repurchase agreements: The carrying amount is a reasonable estimate of fair value.

**3.5 Premises and Equipment**

Premises and equipment, including the related depreciation have been indexed and are expressed in the period end purchase value of the Turkish Lira.

Premises and equipment are depreciated using rates which write off the assets over their expected useful lives. The assets are depreciated on a straight-line basis mainly at the following rates:

Buildings	2%
Vehicles	15% - 20%
Furniture and Office Equipment	6% - 20%
Fixed assets to be sold	2%
Leasehold and Leasehold Improvements	Over the life of the lease

With the exception of fixed assets to be sold which have been acquired through guarantees received by the Bank for loans given, additions to premises and equipment are based on the purchase prices paid to third parties. Fixed assets to be sold are depreciated using rates based on useful lives of such assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Revaluation surpluses arising from the revaluation of premises and equipment in the statutory records as allowed by the prevailing taxation legislation in Turkey are eliminated in the accompanying financial statements.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Retirement Pay Provision**

Under Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. Such payments are based on number of years' service and final salary at the date of retirement or leaving.

International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19") has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit.

The Bank does not calculate the provision on an individual employee basis, but rather makes an estimation of the overall liability.

**3.7 Pension and Other Post Retirement Obligations**

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 all qualified Bank employees with pension plan benefits. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to fixed contributions.

The liability to be recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Bank does not have the legal right to access to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the balance sheet in respect of defined benefit pension plans. The defined benefit obligation is calculated annually by independent actuaries. Based on the report of the actuary in accordance with IAS 19 as at 30 June 2005, the Fund does not have an actuarial deficit as at 30 June 2005 using a technical interest rate of 10%.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.8 Equity Participations**

In the accompanying inflation adjusted financial statements equity participations are stated at the lower of inflation adjusted acquisition cost or fair value. Inflation adjusted values are computed by applying indexation as required under IAS 29 from the date of acquisition of the subsidiary.

In the statutory books of the years before 2004, the Bank valued its equity participations at cost plus the nominal value of bonus shares received from investee companies converting their Revaluation Reserves to Share Capital. Revaluation surpluses arising from the nominal value of shares received in the statutory records are eliminated in the accompanying inflation adjusted financial statements for 2003 and 2002. Since the financial statements of 2004 include inflation adjustments, there have not been any bonus shares received from investee companies.

**3.9 Loan Loss Provisions**

Loans are financial instruments originated by the Bank and accounted for at amortized cost in accordance with IAS 39 (but with amortization on a straight line basis as discussed in note 3.2). Based on its evaluation of the current status of loans granted, the bank makes loan loss provisions which it considers adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income. The bank generally ceases the accrual of interest if interest or principal has remained unpaid for more than three months. At this stage, the Bank compares the carrying value of the loan with the present value of estimated cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Management accepts the present value of estimated cash flows as null since no return on these loans are expected. Interest accrued on overdue loans is considered in management's assessment of the required provisions for loan losses. For loans that are rescheduled, interest is calculated retrospectively and added to the loan balance.

The loan loss provisions and the general loan provision follow the requirements as specified by Turkish Banking regulations. In accordance with the prevailing provisioning legislation, banks in Turkey should appropriate 0.5% general provision for cash loans and other receivables and 0.1% general provision for non-cash loans.

**3.10 Taxation and Deferred Taxes**

Taxes on income for the year consist of current tax and the change in deferred taxes. The Company accounts for current and deferred taxation on the results for the period, in accordance with IAS 12.

Provision is made in the financial statements for the Company's estimated liability to Turkish corporation tax on its results for the year. The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.10 Taxation and Deferred Taxes (continued)**

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred income tax assets and liabilities are also offset.

Based on the latest amendments made to the Turkish Tax Code, entities are to calculate their taxation on inflation adjusted financial statements. Therefore, restatement of fixed assets will no longer create a timing difference between the legal books of companies and their inflation adjusted financial statements apart from instances such as the making of useful life adjustments. Deferred tax liability has been calculated on tangible and intangible fixed assets based on such differences.

**3.11 Securities Under Resale or Repurchase Transactions**

Purchases or sales of securities under agreements of resale or repurchase are short term and entirely involve debt (totally government) securities. Sales of securities under agreements of repurchase (“Repos”) are retained in the balance sheet under securities portfolio and the corresponding counter party commitment is included separately under liabilities. The net gain or loss on repo transactions is accrued over the period to maturity. Purchases of securities under agreements of resale (“reverse repos”) are included in the securities portfolio and interest income on such transactions is accrued on an IRR basis over the period to maturity.

**3.12 Financial Leases – the Group as Lessee**

Assets held under finance leases are recognized as assets of the Bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.12 Financial Leases – the Group as Lessee (continued)**

Leases of assets under which all risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

**3.13 Risk Management**

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

Liquidity risk:

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Bank is exposed to an inevitable degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Bank uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

Credit risk:

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorised at Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Bank places emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The day-to-day management of credit risk is devolved to individual business units, which perform regular appraisals of counter party credit quantitative information.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.13 Risk Management (continued)**

Market risk:

Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts will have an adverse financial impact. The primary risks within the Bank's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Bank's balance sheet is denominated in currencies other than the Turkish Lira (principally the US dollar and Euro-zone currencies).

The Bank's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

Operational risk:

Operational risk arises from the potential for financial loss or reputation damage as a result of inadequate systems (including systems breakdown), errors, poor management, and branches of internal controls, fraud or external events. The Bank's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

**3.14 Cash and Cash Equivalents**

In the statement of cash flows, cash and cash equivalents consists of liquid assets, balances with the Central Bank and Balances with Banks.

Cash and cash equivalents

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Liquid assets	217,755	189,063
Balances with the central bank	396,936	572,917
Balances with banks (excluding reserve deposits at the central bank)	1,858,607	2,177,624
	<u>2,473,298</u>	<u>2,939,604</u>

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**3. ACCOUNTING POLICIES (continued)**

**3.15 Offsetting**

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

**3.16 Insurance Income and Expenses**

Insurance premiums for accident, fire, motor and other non-life insurance are allocated to income over the period of the relevant insurance contract. The unearned portion of insurance premiums at each year end is carried forward as a liability. Life insurance premiums are allocated based on actuarial assumptions approved by the Insurance Supervisory Office applicable to Turkish insurance companies.

Claims are recorded as expenses when notified to the Group. A reserve is established at year end for claims which have been notified but not yet paid.

**3.17 Deferred acquisition costs**

The direct and indirect costs incurred in acquiring the unearned portion of insurance premiums are recorded in the balance sheet under deferred acquisition costs and recognised in the profit and loss account on the same basis as the insurance premiums to which they relate.

**3.18 Impairment**

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of (i) the sales price of the asset (less any selling costs); (ii) the present value of the cash flows which are expected to arise from future use of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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**3. ACCOUNTING POLICIES (continued)**

**3.18 Impairment (continued)**

Corporate assets are not directly separable and independent from the other assets and operations of the Bank. If there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash generating-unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash generating units. Management of the Bank believes that there is no indication of internal or external factors implying any impairment of corporate assets.

**3.19 Use of Estimates**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**3.20 Consolidation**

The consolidation includes the companies set out in note 2. Adjustments are made to eliminate intercompany interests, charges and dividends, intercompany receivables and payables and intercompany investments. In cases where the consolidated entities are not 100% owned the shareholders' equity and net income which belong to third party shareholders are separately disclosed as Minority Interest.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All other participations are stated at cost. In cases where there is evidence of permanent impairment in value, recorded amounts are reduced by such impairment, charged to the income statement.

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**4. LIQUID ASSETS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Cash balances – Turkish Lira	183,005	150,217
Cash balances – Foreign currency	34,002	37,549
Other	748	1,297
	<u>217,755</u>	<u>189,063</u>

**5. BALANCES WITH THE CENTRAL BANK**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<b>a) Balances with the Central Bank</b>		
Demand deposits – Turkish Lira	261,506	337,444
Demand deposits – Foreign currency	10	6,945
	<u>261,516</u>	<u>344,389</u>
Time deposits – Foreign currency	135,318	228,243
	<u>396,834</u>	<u>572,632</u>
Income accruals	102	285
	<u>396,936</u>	<u>572,917</u>
<b>b) Reserve deposits at the Central Bank</b>		
Reserve Deposits – Turkish Lira	393,676	329,245
Reserve Deposits – Foreign currency	544,230	647,704
	<u>937,906</u>	<u>976,949</u>
Income accruals	21,040	20,120
	<u>958,946</u>	<u>997,069</u>

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**5. BALANCES WITH THE CENTRAL BANK (continued)**

Under the Turkish Central Bank regulations, Banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than interbank deposits. The prevailing rates are 6% for Turkish Lira deposits and 11% for foreign currency deposits. These reserves are not available funds to finance the operations of the Bank. Reserve deposits began to earn interest in 2001.

**6. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<b>DOMESTIC BANKS</b>		
Current accounts - Turkish Lira	19,106	1,027
Current accounts- Foreign currency	15,443	686
Time deposits – Turkish Lira	167,386	250,358
Time deposits – Foreign currency	18,555	4,715
	<u>220,490</u>	<u>256,786</u>
<b>FOREIGN BANKS</b>		
Current accounts – Turkish Lira	15,449	12
Current accounts - Foreign currency	52,037	49,939
Time deposits – Turkish Lira	15,232	10,325
Time deposits – Foreign currency	1,554,230	1,858,232
	<u>1,636,948</u>	<u>1,918,508</u>
	<u>1,857,438</u>	<u>2,175,294</u>
Income accrual on balances with banks and other financial institutions	1,169	2,330
	<u>1,858,607</u>	<u>2,177,624</u>

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**7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES**

<b>a) Trading Securities Portfolio</b>	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Government bonds and treasury bills	990,220	2,297,035
Eurobonds	323,197	755,024
Investment participation bills	26,855	31,179
Shares	2,188	2,408
Other	928	656
	<u>1,343,388</u>	<u>3,086,302</u>
Income accruals	<u>236,948</u>	<u>230,207</u>
	<u>1,580,336</u>	<u>3,316,509</u>
<b>b) Available for sale</b>		
Government bonds and treasury bills	6,838,016	4,467,616
Eurobonds	1,345,074	1,131,809
Other	87,274	101,860
	<u>8,270,364</u>	<u>5,701,285</u>
Income accruals	<u>477,032</u>	<u>201,494</u>
	<u>8,747,396</u>	<u>5,902,779</u>

The carrying values of trading and available for sale securities are equal to fair values.

Estimated fair values for Government Bonds and Treasury Bills that are traded on a stock exchange were calculated based upon the prices quoted on the İstanbul Stock Exchange. For index-linked Government bonds, fair values were calculated based on the prices quoted in the Official Gazette.

Eurobonds as at 30 June 2005 are issued by the Republic of Turkey in foreign currencies and mature through the years 2005-2034. These government bonds are valued at fair value based on market data.

Starting from 1 January 2005, Bloomberg and/or Deutsche Bank Autobahn quotations have been accepted as active market data for valuation of Turkish Treasury Eurobonds. The difference between carrying amount and fair value of these securities were recognized as;

- i) for held for trade portfolio, YTL 139,515 Thousand gain recognized in income statement as interest income,
- ii) for available for sale portfolio, YTL 88,628 Thousand gain recognized directly in equity.

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**7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES**  
**(continued)**

**c) Held to Maturity Securities**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Government bonds and treasury bills	737,596	970,437
Other	48,260	33,440
	<u>785,856</u>	<u>1,003,877</u>
Income accrual	46,269	60,911
	<u>832,125</u>	<u>1,064,788</u>

Held to maturity securities as at 30.06.2005 have a fair value of YTL 828,924 Thousand. Of the held to maturity securities, government bonds and treasury bills have a fair value of YTL 734,395 Thousand. Other securities' fair values are not available.

Estimated fair values for Government Bonds and Treasury Bills that are traded on a stock exchange were calculated based upon the prices quoted on the İstanbul Stock Exchange. For index-linked Government bonds, fair values were calculated based on either the prices quoted in the Official Gazette.

As explained in Note 3.4, held to maturity securities are intended to be held till the maturity date.

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**7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES**  
**(continued)**

Securities portfolio includes YTL 683,108 Thousand (31.12.2004: YTL 836,304 Thousand) of securities sold with agreements to repurchase (“repo”) as at the balance sheet date.

YTL 1,138,750 Thousand (31.12.2004: YTL 2,669,625 Thousand) of the securities portfolio are blocked securities for legal requirements and kept as guarantee for Istanbul Stock exchange transactions, Interbank Money Market transactions, liquidity guarantee and foreign currency market guarantee.

Blocked securities according to restriction type as at 30.06.2005 is as follows;

	<b>Takasbank</b>	<b>TCMB</b>	<b>İstanbul</b>	
	<b>000 YTL</b>	<b>Interbank</b>	<b>Stock</b>	<b>Total</b>
	<b>000 YTL</b>	<b>000 YTL</b>	<b>Exchange</b>	<b>000 YTL</b>
	<b>000 YTL</b>	<b>000 YTL</b>	<b>000 YTL</b>	<b>000 YTL</b>
Held for trading	17,441	-	-	17,441
Available for sale	262,598	365,455	163,193	791,246
Held to maturity	-	330,063	-	330,063
	<u>280,039</u>	<u>695,518</u>	<u>163,193</u>	<u>1,138,750</u>

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**8. LOANS - NET**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Short, medium and long term loans	9,307,498	8,739,836
Overdue loans	982,847	925,594
Less: Provision for loans	(982,795)	(925,532)
Interest and other accruals on loans	138,206	117,914
	<u>9,445,756</u>	<u>8,857,812</u>

A breakdown of loans can be given as follows:

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<i>Short Term Loans</i>		
Discount and purchase bills	91,809	901
Export loans unsecured	24,703	33,733
Secured export loans	950,880	979,694
Other unsecured loans	1,327,146	1,441,001
Other secured loans(*)	4,931,857	4,260,613
Loans given to financial sector	13,937	58,729
Loans given to foreign institutions	2,185	3,748
Rescheduled loans	99,180	166,139
Finance lease receivables	72,598	107,968
Factoring receivables	33,104	26,395
	<u>7,547,399</u>	<u>7,078,921</u>
<i>Medium and Long Term Loans</i>		
Unsecured loans with export obligations	150,472	173,162
Secured loans with export obligations	818,001	830,407
Secured other inv. and operating loans	339,355	217,901
Other unsecured loans	316,058	310,518
Loans given to financial sector	4,376	4,865
Finance Lease Receivables	131,837	124,062
	<u>1,760,099</u>	<u>1,660,915</u>
	<u>9,307,498</u>	<u>8,739,836</u>

(\*) YTL 3,977,532 Thousand of other secured loans as at 30 June 2005 consists of consumer loans (31.12.2004: YTL 3,323,371 Thousand).

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**8. LOANS -NET (continued)**

Movement for loan loss provision:

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
At 1 January	925,532	1,168,784
Charge for the year	153,865	279,864
Provision released	(51,446)	(381,022)
Effect of indexation	(45,156)	(142,094)
At period end	<u>982,795</u>	<u>925,532</u>
	<b>2005</b>	<b>2004</b>
<b>Sector</b>	<b>%</b>	<b>%</b>
Manufacturing	18	21
Construction	5	6
Trade	21	22
Retail and consumer	54	50
Other	2	1
	<u>100</u>	<u>100</u>

Loans can be analysed by currency as follows;

	<b>30.06.2005</b>	<b>31.12.2004</b>
<b>Currency</b>	<b>000 YTL</b>	<b>000 YTL</b>
Turkish Lira	6,019,221	5,530,050
US Dollars	1,563,348	2,040,943
Euro	1,688,243	1,132,508
CHF	7,044	27,800
Other currencies	29,642	8,535
	<u>9,307,498</u>	<u>8,739,836</u>

The Bank extends short term loans to customers with maturities mainly of within one year. Interest rates charged for loans varied between 25% and 33% (31 December 2004: 27% and 60%) for Turkish Lira loans and 6.9% and 7.46% (31 December 2004: 4.5% and 7%) for foreign currency loans per annum during the year.

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**9. TRADE RECEIVABLES**

	<b>30.06.2004</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Receivables from insurance customers	166,998	105,756
Other trade receivables	15,340	55,122
Doubtful trade receivables	14,646	13,632
Less: Provision for doubtful receivables	(13,708)	(13,254)
	<u>183,276</u>	<u>161,256</u>

**10. SUNDRY DEBTORS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Receivables from personnel	200	183
Receivables for banking services	656	566
Receivables from sale of assets	98,644	45,281
Receivables from credit card transactions	30,857	14,731
Receivables from court case expenses	15,981	15,550
Other sundry debtors	5,906	11,085
	<u>152,244</u>	<u>87,396</u>

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**11. EQUITY PARTICIPATIONS -NET**

“Available for sale assets” under IAS 39 classification:

	<b>Percent Owned</b>	<b>30.06.2005</b>	<b>31.12.2004</b>
	(%)	<b>000 YTL</b>	<b>000 YTL</b>
Banque Du Bosphore	20.00	6,531	8,080
Bankalararası Kart Merkezi A.Ş.	9.70	1,160	1,160
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	108	211
Güney Ege Enerji İşlt.Ltd.Şti.	38.19	218,883	218,733
İMKB Takas ve Saklama Bankası A.Ş.	5.28	9,480	9,480
İzmir Enternasyonal Otelcilik A.Ş.	5.00	6,381	6,381
Kıbrıs Vakıflar Bankası Ltd.	15.00	1,362	1,362
Kredi Kayıt Bürosu A.Ş.	9.09	1,770	1,770
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	8.38	34,968	16,283
Vak-Bel İthalat A.Ş.	84.66	12,759	12,759
Vakıf Gayrimenkul Ekspertiz ve Değ. A.Ş.	27.44	443	443
Vakıf İnşaat Restorasyon A.Ş.	16.76	7,860	7,860
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	21.64	3,667	3,601
Vakıf Girişim Sermayesi Yat. Ort. A.Ş. .(*)	46.44	3,640	3,170
Vakıf Sistem Pazarlama A.Ş.	79.75	8,214	8,214
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	12.19	35,059	35,059
Ortadoğu Yazılım Hizmetleri A.Ş.	25.23	5,056	3,679
Other		2,784	2,626
		<u>360,125</u>	<u>340,871</u>
Provision for diminution in value of participations (-) (**)		<u>(49,607)</u>	<u>(49,851)</u>
		<u><u>310,518</u></u>	<u><u>291,020</u></u>

(\*): Shares of Türkiye Sınai Kalkınma Bankası A.Ş. and Vakıf Girişim Sermayesi Yat. Ort. A.Ş. are traded on the İstanbul Stock Exchange.

(\*\*): YTL 31,940 Thousand, YTL 12,759 Thousand, YTL 4,323 Thousand and YTL 585 Thousand of the total provision is provided for Bayek Tedavi ve Sağlık Hizmetleri A.Ş., Vak-Bel İthalat A.Ş., Vakıf İnşaat Restorasyon A.Ş. and Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. respectively.

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**11. EQUITY PARTICIPATIONS - NET (continued)**

In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi ("Güney Enerji") for a consideration of USD 103,500,000 (YTL 139,208 Thousand) from a borrower experiencing financial difficulty and transferred this shareholding to a newly established participation in 2001, Vakıf Enerji ve Madencilik A.Ş. ("Vakıf Enerji"), for the same consideration. Güney Ege Enerji Limited Şirketi holds the operating rights for Yatağan, Yeniköy and Kemerköy thermal power generation plants which are within the scope of the privatization programme. Commencement of operation of these power plants did not occur. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. 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 Ege Enerji Limited Şirketi was entitled to a total compensation of USD 90,000,000 (YTL 121,050 Thousand). Vakıf Enerji will be paid an amount of compensation net of taxes according to its 45% shareholding. The indexed cost of the Bank's 45% interest in Güney Enerji as at 30 June 2005 is YTL 218,883 Thousand and a provision amounting to YTL 90,000 Thousand has been provided by the Bank in addition to the recovered amount as a result of the compensation explained above.

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**12. PREMISES AND EQUIPMENT**

	<b>Land &amp; Buildings 000 YTL</b>	<b>Vehicles, furniture &amp; equipment and leasehold improvements 000 YTL</b>	<b>Other Tangibles 000 YTL</b>	<b>Intangible Assets 000 YTL</b>	<b>Total 000 YTL</b>
<b>Acquisition Cost</b>					
Opening Balance at 1 January 2005	1,419,175	395,456	28,819	24,882	1,868,332
Additions	1,926	46,975	158	8,221	57,280
Disposals	(123,209)	(9,649)	(19,944)	(2,483)	(155,285)
Closing Balance 30 June 2005	<u>1,297,892</u>	<u>432,782</u>	<u>9,033</u>	<u>30,620</u>	<u>1,770,327</u>
<b>Accumulated Depreciation (-)</b>					
Opening Balance at 1 January 2005	135,732	325,738	6,497	10,743	478,710
Charge for the Year	14,356	22,581	609	5,962	43,508
Disposals	(10,372)	(3,813)	(644)	(1,398)	(16,227)
Closing Balance 30 June 2005	139,716	344,506	6,462	15,307	505,991
Net Book Values at 31 December 2004	<u>1,283,443</u>	<u>69,718</u>	<u>22,322</u>	<u>14,139</u>	<u>1,389,622</u>
Net Book Values at 30 June 2005	<u>1,158,176</u>	<u>88,276</u>	<u>2,571</u>	<u>15,313</u>	<u>1,264,336</u>

Movement for revaluation of premises and equipment:

Opening (01 January 2005):	52,561
Additions:	21,070
Disposals:	-
Closing (30 June 2005):	73,631

Please refer to Note 24 for footnote provided for the revaluation fund.

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**13. OTHER ASSETS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Deferred acquisition cost	37,240	30,356
Prepaid expenses	24,319	21,727
Prepaid taxes	81,975	96,889
Investment properties	23,394	23,598
Inventories	2,007	7,114
Other(*)	32,444	23,321
	<u>201,379</u>	<u>203,005</u>

(\*) Other includes YTL 14,315 Thousand of transfer orders in process resulting from time zone differences among countries (31.12.2004: YTL10,218 Thousand).

**14. DEPOSITS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Savings and certificates of deposit	2,760,480	1,898,973
Public, commercial and other deposits	10,834,150	9,232,054
Interbank deposits	920,469	988,090
Foreign currency deposits	5,870,628	6,250,677
	<u>20,385,727</u>	<u>18,369,794</u>
Expense accruals on deposits	221,229	158,295
	<u>20,606,956</u>	<u>18,528,089</u>

The time deposits have maturity periods of less than one year. The Bank has applied interest rates to Turkish Lira time deposits based upon maturity as follows: one month 13%, three months 14%, six months 18% and one year 15% (2004: one month 20%, three months 20%, six months 19% and one year 19%). Interest rates applied for foreign currency time deposits vary between 2.06 % and 3.04 % for US dollars and 2.17 % and 3.19 % for Euro (2004: 2.25% and 3.50% for US Dollars and 2.75 and 3.75% for Euro).

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**15. BORROWINGS FUNDING LOANS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Borrowings from domestic banks and institutions	319,679	292,897
Borrowings from overseas banks and institutions	2,503,565	2,802,927
Subordinated loans	213,344	220,283
Interest and other expense accruals	27,997	24,511
	<u>3,064,585</u>	<u>3,340,618</u>

In August 2002, a subordinated loan was received from Saving Deposits Insurance Fund in order to improve the capital adequacy ratio. The loan has no repayment for the first two years, has a fixed term of seven years and to be repaid with 0.5% spread. A special type of bond convertible into shares has been issued, having a value date 26 August 2002 and maturing on 26 August 2009, with a nominal value of YTL 213,344 Thousand, one coupon payment per annum and indexed to TÜFE (Consumer price index announced by the State Institute of Statistics). It is kept in the custody of the Turkish Central Bank.

Borrowing from domestic banks includes funds used from the Turkish Export and Import Bank. These funds were extended to the Bank's loan customers for export activities.

Terms of payment:

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Within one year	1,141,995	2,031,476
1-2 years	110,878	346,941
2-3 years	2,022	1,088
3-4 years	1,659	219,291
Over four years	1,808,031	741,822
	<u>3,064,585</u>	<u>3,340,618</u>

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**16. FUNDS**

According to an agreement between the Mass Housing Administration (“MHA”) and the Bank, the Bank is obliged to act as an intermediary in loan disbursements. These loan disbursements, for which the Bank is supplied with the corresponding funds accounted for as “Funds” in its balance sheet, are intended to support the economic development of certain regions of Turkey. Entities are provided with such credits subject to the approval of the MHA and Government participation fund. The Bank charges commission for the intermediary services provided.

**17. TRADE PAYABLES**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Trade payables	61,879	44,023
Payables to insurance companies	28,629	28,217
Other trade payables	50,131	3,427
	<u>140,639</u>	<u>75,667</u>

**18. SUNDRY CREDITORS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Cash guarantees	5,947	5,160
Reserved cash	1,921	19,333
Payables to funds	15,554	16,497
Advances received	14,024	-
Other	6,989	32,136
	<u>44,435</u>	<u>73,126</u>

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**19. TAXATION**

The Bank is subject to Turkish corporation taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the year.

Corporation tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilised.

The effective rates of tax are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% surcharge of funds contribution on corporate tax.
- In 2003: 30% (the funds contribution was abolished for 2003).
- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004)
- In 2005: 30%

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, and to 33% for 2004. The applicable rate is determined as 30% for 2005.

Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

In Turkey there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed profits are exempt from withholding tax. Income withholding tax was also calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not. Such withholding tax has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years.

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**19. TAXATION (continued)**

Tax Computations Based on Inflation Adjusted Balances

In 2003 and previous years, taxation was calculated based on profits not adjusted for inflation accounting, except for the effect of the annual revaluation of the fixed assets and the depreciation calculated thereon. Law 5024 published in the Official Gazette of 30 December 2003 numbered 25332 requires the application of inflation accounting in 2004 and the following periods provided that the inflation rate reaches the limits set out by the Law. Methods for inflation accounting in accordance with the tax legislation do not differ materially from the methodology of IAS 29 “Financial Reporting in Inflationary Economies”.

Deferred Taxation

The Bank calculates deferred tax assets and liabilities on temporary timing differences between the legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS. Timing differences are calculated on differences between the values of fixed assets (excluding land), intangible assets, inventory and prepaid expenses in the legal books and the inflation adjusted financial statements and on the discount of receivables, retirement pay provision and investment incentives.

Due to effective tax rate being 30%, 30% has been taken into account in the calculation of deferred taxes.

In previous years, deferred taxes were being calculated on differences between the inflation adjusted net book value of fixed assets and the nominal net book value in the legal books. Due to the Law 5024 published in the Official Gazette of 30.12.2003, it has become mandatory to eliminate the effect of inflation arising from the previous periods and to continue with such inflation adjustments in 2004 and the following periods, provided that the inflation rate is higher than the limits set out in the Law. Therefore, temporary differences arising from differences due to the inflation adjustments on fixed assets in accordance with International Financial Reporting Standards are no longer created in general. Hence, temporary differences on fixed assets will only arise from the usage different depreciation rates in the legal books from those used in the IFRS financial statements and from other special cases. Therefore, in the accompanying financial statements, deferred taxes calculated on differences between the historic and inflated values of fixed assets have been reversed in 2003. The accompanying financial statements have been adjusted for deferred taxes based on timing differences arising from the usage of alternate depreciation rates and the differences in the method of applying depreciation under IFRS and recently amended local tax literature.

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**19. TAXATION (continued)**

**a) Balance sheet: Taxes and dues payable**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Corporation tax, withholding tax and funds	140,171	253,704
Deferred tax liability/(assets)- net	(110,130)	(98,757)
Other taxes and dues	39,365	41,637
	<u>69,406</u>	<u>196,584</u>

**b) Statement of income: Taxes**

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Corporation tax, withholding tax and funds	106,860	21,686
Charge / (benefit) for deferred tax	(11,373)	(40,840)
	<u>95,487</u>	<u>(19,154)</u>

The major cumulative temporary differences are as follows:

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Fixed assets indexation difference and revaluation surplus	(99,685)	(155,157)
Retirement pay provision	(87,065)	(85,852)
Other temporary differences (total)	(187,596)	(87,873)
<b>NET CUMULATIVE TEMPORARY DIFFERENCES</b>	<u>(374,346)</u>	<u>(328,882)</u>
<b><u>Movement of Deferred Tax</u></b>		
<b><u>(Assets)/Liabilities:</u></b>		
Opening balance	(98,757)	(20,878)
Deferred tax benefit	(11,373)	(77,879)
Closing balance	<u>(110,130)</u>	<u>(98,757)</u>

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**20. PROVISIONS**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<b>PROVISIONS FOR RETIREMENT PAY</b>		
At 1 January	86,345	81,782
Provision for the period (net)	4,112	14,506
Monetary loss	(2,720)	(9,943)
At period end	<u>87,737</u>	<u>86,345</u>
<b>GENERAL LOAN PROVISION</b>		
At 1 January	63,773	55,072
Provision and release for the period – net	10,507	15,396
Monetary loss	(2,009)	(6,695)
At period end	<u>72,271</u>	<u>63,773</u>
<b>PROVISION FOR NON-CASH LOANS</b>	<b>116,083</b>	<b>58,880</b>
<b>INSURANCE COMPANIES</b>		
<b>TECHNICAL PROVISIONS</b>	<b>424,272</b>	<b>379,853</b>
<b>OTHER PROVISIONS (*)</b>	<b>166,115</b>	<b>61,341</b>
<b>TOTAL PROVISIONS</b>	<u><b>866,478</b></u>	<u><b>650,192</b></u>

(\*) *Other provisions as at 30.06.2005 include YTL 90,000 Thousand (31.12.2004 : YTL 50,000 Thousand) of value loss provision for Güney Ege case explained at Note 11.*

**Provision for Retirement Payments:**

Lump sum payments are made to all employees who retire from the bank or whose employment is terminated for reasons other than misconduct. The amount payable is 30 days' gross pay for each year of service. The rate of pay is that ruling at 30 June 2005, subject to a maximum of YTL 1,648.9 YTL per month (2004: YTL 1,574.7 per month).

**General Provision for Loans:**

The general provision for loans has been made in respect of losses which have not yet been specifically identified but are known from experience to be present in any loan portfolio.

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**21. MATURITY ANALYSIS**

<b>As at 30 June 2005</b>	<b>Up to 1 Month 000 YTL</b>	<b>1 to 3 Months 000 YTL</b>	<b>3 to 12 Months 000 YTL</b>	<b>Greater than 1 year 000 YTL</b>	<b>(*) Total 000 YTL</b>
<b>ASSETS</b>					
Liquid assets	217,755	-	-	-	217,755
Banks (including Central Bank)	1,853,199	398,006	4,338	-	2,255,543
Interbank funds sold (including reverse repurchases)	2,800,631	-	-	-	2,800,631
Securities portfolio	1,006,324	304,924	3,816,371	6,032,238	11,159,857
Loans	1,850,072	503,280	2,412,487	4,679,917	9,445,756
<b>LIABILITIES</b>					
Deposits	7,709,142	9,359,347	2,625,395	913,072	20,606,956
Securities sold under repo agreements	452,869	145,807	207,284	-	805,960
Bank borrowings	162,338	36,170	995,375	1,870,702	3,064,585
Funds	158,734	-	-	-	158,734

(\*) Interest income and expense accruals are included in up to 1 month column.

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**21. MATURITY ANALYSIS**

<b>As at 31 December 2004</b>	<b>Up to 1 Month 000 YTL</b>	<b>1 to 3 Months 000 YTL</b>	<b>3 to 12 Months 000 YTL</b>	<b>Greater than 1 year 000 YTL</b>	<b>(*) Total 000 YTL</b>
<b>ASSETS</b>					
Liquid assets	189,063	-	-	-	189,063
Banks (including Central Bank)	2,712,664	73	6,026	31,778	2,750,541
Interbank funds sold	1,136,348	-	-	-	1,136,348
Securities portfolio	554,015	71,686	3,408,749	6,249,626	10,284,076
Loans	1,717,347	580,359	2,198,395	4,361,711	8,857,812
<b>LIABILITIES</b>					
Deposits	7,895,491	7,505,305	2,292,436	834,857	18,528,089
Securities sold under repo agreements	301,531	70,395	262,212	-	634,138
Borrowings funding loans	203,743	225,986	1,560,869	1,350,020	3,340,618
Funds	171,520	-	-	-	171,520

(\*) Interest income and expense accruals are included in up to 1 month column .

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**22. MINORITY INTEREST**

In the calculations of minority interests in group companies, shareholders of T.Vakıflar Bankası T.A.O. are included among the minority shareholders.

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
-Paid in capital	337,859	338,253
-Revaluation fund	6,195	8,296
-Retained Earnings	(86,524)	(59,678)
	<u>257,530</u>	<u>286,871</u>

**23. SHARE CAPITAL**

The Bank's share capital consists of A, B and C classes of shares, which carry the same rights. Vakıflar General Directorate is the acting owner of the A and B class of shares, on behalf of the Associated Foundations throughout the country.

<b>Class of Shares</b>	<b>%</b>	<b>30.06.2005</b>	<b>31.12.2004</b>
		<b>000 YTL</b>	<b>000 YTL</b>
Vakıflar Genel Müdürlüğü (A Class)	55.00	550,000	231,080
Vakıflar Genel Müdürlüğü (B Class)	19.75	197,500	82,977
Mazbut ve Mülhak Vakıflar (B Class)	0.25	2,500	1,052
Vakıfbank Employee Pension Fund (C Class)	24.89	248,900	104,593
Individuals and Legal Entities (C Class)	0.11	1,100	443
		<u>1,000,000</u>	<u>420,145</u>
Paid capital per statutory records			
Indexation effect		1,384,479	1,351,878
Indexed Share Capital		<u>2,384,479</u>	<u>1,772,023</u>

**24. REVALUATION FUND**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
-Fixed assets	73,631	52,561
-Available for sale securities portfolio	129,975	48,787
	<u>203,606</u>	<u>101,348</u>

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**25. INTEREST INCOME**

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<b>BANKING</b>		
Interest on loans	931,253	717,117
Interest on securities portfolio	825,775	663,400
Interest on deposits at banks	21,796	19,918
Interest on interbank funds sold	92,716	42,446
Interest on reserve requirement	43,323	38,875
Other interest income	235	129
	<u>1,915,098</u>	<u>1,481,885</u>

**26. INTEREST EXPENSE**

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<b>BANKING</b>		
Interest expense on deposits	995,912	844,691
Interest expense on interbank funds borrowed	16,389	29,301
Interest expense on borrowings	48,131	47,077
Other interest expense	3,817	1,611
	<u>1,064,249</u>	<u>922,680</u>

**27. NON-INTEREST INCOME**

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Banking services income	188,874	175,430
Income from capital market transactions - net	179,814	66,751
Foreign exchange gains – net <sup>(1)</sup>	22,239	-
Reversal of unnecessary provision	50,785	11,044
Fixed asset sales revenue	2,630	104,069
Insurance technical income	665,208	723,674
Leasing technical income	14,200	19,941
Other <sup>(2)</sup>	40,488	107,661
	<u>1,164,238</u>	<u>1,208,570</u>

<sup>(1)</sup> Please see Note 28 – (\*)

<sup>(2)</sup> Major component is fees charged for miscellaneous banking activities..

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**28. NON-INTEREST EXPENSE**

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Personnel expenses	170,175	162,568
Taxes and dues	16,451	16,472
Depreciation expenses	43,508	32,471
Commissions and fees paid	45,289	72,670
Retirement pay provision	4,365	6,968
Foreign exchange losses-net (*)	-	7,978
Other provisions (**)	191,822	61,768
Insurance technical expense	677,257	706,486
Leasing technical expense	5,591	3,030
Other expenses (***)	201,898	223,884
	<u>1,356,356</u>	<u>1,294,295</u>

(\*) *The foreign exchange gains / (losses) generated from foreign currency transactions are offsetted and net income / (loss) for the year is presented in either "Non-Interest Income" or "Non-Interest Expense".*

(\*\*) *Main components of other provisions are YTL 63,603 Thousand for non-liquidated non-cash loans, YTL 128,219 Thousand for other assets and receivables.*

(\*\*\*) *Components of other expenses are shown below:*

	<b>30.06.2005</b>	<b>30.06.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Donations	35,067	66,045
Advertisement expense	10,939	19,588
Rent expense	18,406	18,456
Communication expense	15,114	15,172
Fixed assets sales losses	14,036	14,585
Prior year expenses	13,031	-
Impairment losses	17,874	-
Fees and commissions	40,970	47,669
Others	36,461	42,369
	<u>201,898</u>	<u>223,884</u>

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**29. CONTINGENCIES AND COMMITMENTS**

Significant contingencies and commitments are summarized as follows:

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Letters of Guarantee		
- in Turkish Lira	1,598,964	1,402,274
- in Foreign Currency	948,941	1,269,089
Letters of Credit	1,164,229	1,007,535
Acceptance Loans	424,646	285,219
Other Commitments	3,438,132	2,799,135
	<u>7,574,912</u>	<u>6,763,252</u>

**30. FOREIGN CURRENCY POSITION**

	<b>30.06.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Total foreign currency assets	9,914,090	10,515,725
Total foreign currency liabilities	(9,770,698)	(11,016,190)
Net foreign currency position	<u>143,392</u>	<u>(500,465)</u>

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**31. RELATED PARTY TRANSACTIONS**

*a) Deposits and Commitments to Repurchase Securities*

Vakıfbank Employee Pension Fund has deposits amounting to YTL 367,651,596 and securities amounting to YTL 40,962,654 held within the Bank as at June, 30 2005.

Related interest income earned by Vakıfbank Employee Pension Fund on deposits and securities for the 6 months period of 2005 is YTL 14,911,906 and YTL 8,070,030 respectively.

Vakıfbank Employee Pension Fund has deposits amounting to YTL 244,198,229 and securities amounting to YTL 123,170,751 held within the Bank as at December, 31 2004.

*b) Compensation of Key Management Personnel*

The remuneration of directors and other members of key management during the year amounted to YTL 915,192 for the six month period ended 30 June 2005.

**32. SUBSEQUENT EVENTS**

The employment termination indemnity ceiling has been increased to YTL 1,727 commencing on 1 July 2005 ( See Notes 3.7 and 20 ).