

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2005**

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

## OPINION OF INDEPENDENT AUDITORS

1. We have audited the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası T.A.O. (the “Bank”) and its subsidiaries (together the “Group”) as of 31 December 2005, and the related consolidated statements of income, shareholders’ equity and cash flow for the year then ended, all expressed in the equivalent purchasing power of New Turkish Lira as at 31 December 2005. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Except for limitations set out in paragraph 3 below, we conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As discussed in Note 2 to the financial statements, the necessary liability adequacy tests are not performed and disclosure requirements are not met in the accompanying consolidated financial statements, therefore no opinion could be formed regarding the effect of application of IFRS 4 on the accompanying financial statements.

# Deloitte.

4. In our opinion, except for such adjustments as may be necessary in respect of the matters discussed in paragraph 3 above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2005 and the consolidated results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.
5. As discussed in Note 2, the accompanying 2005 consolidated financial statements have been restated.

Ankara, 24 April 2006

*Except for notes 2, 4, 8, 24, 25, 26, 30 for which date is 26 May 2006*

*Denetim Serbest Mali Müşavirlik A.Ş.*

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 31 DECEMBER 2005 AND 31 DECEMBER 2004****(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

<b><u>ASSETS</u></b>		<b>31 December 2005 000 YTL</b>	<b>31 December 2004 000 YTL</b>
	<b>Note</b>		
Cash and Cash Equivalents	5	282,613	191,429
Balances With The Central Bank	6a	1,375,075	580,087
Balances With Banks	7	2,122,253	2,204,876
Interbank Money Market Placements		1,500,000	1,150,568
Receivables from Reverse Repurchase securities		1,149,955	-
Trading Securities Portfolio	8a	1,123,973	3,358,013
Available for Sale Portfolio	8b	10,301,870	5,976,649
Reserve Deposits At The Central Bank	6b	687,643	1,009,547
Loans – Net	9	12,517,564	8,968,663
Trade Receivables – Net	10	292,890	163,274
Sundry Debtors	11	118,569	88,490
Held to Maturity Securities	8c	590,410	1,078,114
Equity Participations	12	355,077	294,662
Premises And Equipment – Net	13	1,258,661	1,407,013
Other Assets	14	324,349	205,545
<b>Total Assets</b>		<b>34,000,902</b>	<b>26,676,930</b>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS**

**AS AT 31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2005)**

<b><u>LIABILITIES</u></b>	<b>Note</b>	<b>As restated 31 December 2005 000 YTL</b>	<b>31 December 2004 000 YTL</b>
Deposits			
Demand		3,830,051	3,388,139
Time		19,313,680	15,211,545
Expense accruals on deposits		218,226	160,275
	15	23,361,957	18,759,959
Commitments to Repurchase Securities		213,089	642,074
Borrowings	16	3,812,474	3,382,424
Funds	17	151,597	173,667
Trade Payables	18	144,923	76,614
Deposits and Advances Taken for Imports		127,586	139,714
Sundry Creditors	19	275,800	74,041
Taxes and Dues Payable	20a	202,367	199,044
Provisions	21	877,700	658,328
Other Liabilities		138,578	252,870
Total Liabilities		29,306,071	24,358,735
<b>Equity</b>			
Share Capital			
Nominal Capital		1,279,000	420,145
Inflation Adjustment To Capital		1,413,703	1,374,054
Total Paid-In Capital	23	2,692,703	1,794,199
Revaluation Fund	24	290,497	102,616
Share Premium		1,169,756	-
Retained Earnings		218,263	130,919
Equity Attributable To Vakıflar Bankası T.A.O. Shareholders		4,371,219	2,027,734
Minority Interest	25	323,612	290,461
Total Equity		4,694,831	2,318,195
<b>Total Liabilities And Shareholders' Equity</b>		<b>34,000,902</b>	<b>26,676,930</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>30</b>	<b>7,521,494</b>	<b>6,847,890</b>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME  
FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 31 DECEMBER 2004  
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2005)**

	Note	As restated 2005 000 YTL	2004 000 YTL
Interest Income – Banking	26	3,790,222	3,273,734
Interest (Expense) – Banking	27	(2,316,029)	(1,977,883)
Net Interest Income – Banking		<u>1,474,193</u>	<u>1,295,851</u>
Loan Loss Provision (Expense)		<u>(262,039)</u>	<u>(172,271)</u>
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISIONS</b>		<b>1,212,154</b>	<b>1,123,580</b>
Non-Interest Income	28	1,945,793	2,108,607
Non-Interest (Expense)	29	(2,178,167)	(2,154,126)
Income from Associates		<u>8,928</u>	<u>81,332</u>
<b>INCOME BEFORE TAX AND MONETARY (LOSS)</b>		<b>988,708</b>	<b>1,159,393</b>
Taxation	20b	<u>(189,333)</u>	<u>(202,515)</u>
<b>INCOME BEFORE MONETARY (LOSS)</b>		<b>799,375</b>	<b>956,878</b>
Monetary (Loss)		<u>(53,268)</u>	<u>(88,422)</u>
<b>NET INCOME</b>		<b>746,107</b>	<b>868,456</b>
Attributable to:			
Equity holders of T. Vakıflar Bankası		714,003	807,282
Minority interest		32,104	61,174
<b>Total</b>		<b>746,107</b>	<b>868,456</b>
Earnings Per Share	3.24	<u>0.946</u>	<u>1.839</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**  
**INFLATION ADJUSTED AND CONSOLIDATED STATEMENT OF CHANGES IN**  
**SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED**  
**31 DECEMBER 2005 AND 31 DECEMBER 2004**  
**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

	<b>Paid in Capital 000 YTL</b>	<b>Revaluation Fund 000 YTL</b>	<b>Share Premium 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>	1,794,199	141,048	-	(697,405)	267,294	1,505,136
Changes in minority	-	-	-	-	(2,772)	(2,772)
Valuation differences for foreign subsidiaries	-	-	-	21,042	-	21,042
Dividends paid	-	-	-	-	-	-
Profit for the year	-	-	-	807,282	61,174	868,456
Additions and disposals from revaluation fund – net	-	(38,432)	-	-	(35,235)	(73,667)
<b>As at 31.12.2004</b>	<b>1,794,199</b>	<b>102,616</b>	<b>-</b>	<b>130,919</b>	<b>290,461</b>	<b>2,318,195</b>
Cash increase	278,383	-	1,169,756	-	4,085	1,452,224
Capital increase (*)	620,121	-	-	(620,121)	-	-
Changes in minority	-	-	-	-	-	-
Valuation differences for foreign subsidiaries	-	-	-	(2,344)	-	(2,344)
Dividends paid	-	-	-	(4,194)	-	(4,194)
Profit for the period	-	-	-	714,003	32,104	746,107
Additions and disposals from revaluation fund – net	-	187,881	-	-	(3,038)	184,843
<b>As at 31.12.2005 (As restated)</b>	<b>2,692,703</b>	<b>290,497</b>	<b>1,169,756</b>	<b>218,263</b>	<b>323,612</b>	<b>4,694,831</b>

(\*) 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**

**31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

	<b>As restated 31.12.2005 000 YTL</b>	<b>31.12.2004 000 YTL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net profit for the year</b>	<b>746,107</b>	<b>868,456</b>
Adjustments to reconcile net income to net		
Cash provided by operating activities:		
Depreciation and amortization	120,640	77,363
Provision for retirement pay	11,083	4,620
General loan loss provision	25,298	8,810
Provisions for non-cash loans	60,270	27,041
Insurance technical provisions and other provisions	61,852	45,972
Loan loss provisions	155,295	172,271
Other provisions	67,476	60,047
Decrease in taxation on income and deferred taxes	3,323	166,031
(Increase) in Interbank funds sold – net	(349,432)	(822,639)
Decrease / (Increase) in reserve deposits at Central Bank	321,904	(129,435)
(Increase) in other assets	(231,270)	(127,523)
(Increase) in marketable securities	(1,412,304)	(554,488)
(Increase) in loans	(3,704,196)	(3,044,532)
(Increase) in receivables from reverse repurchase securities	(1,149,954)	-
Net cash (used in) operating activities	<u>(5,273,908)</u>	<u>(3,248,006)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) / Decrease in equity participations	(60,415)	101,074
Disposals from premises and equipment-net	25,466	45,218
Net cash (used in) / provided from investing activities	<u>(34,949)</u>	<u>146,292</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits	4,601,998	3,368,105
Increase/ (Decrease) in securities under repo agreement	(428,985)	16,089
(Decrease) / Increase in loans used	430,050	723,367
(Decrease) in funds borrowed	(22,070)	(38,757)
(Decrease)/ Increase in other liabilities	87,468	(201,516)
Change in minority interest	-	(2,772)
Share premium	1,169,756	-
Cash increase in capital	278,383	-
Cash dividends paid	(4,194)	-
Net cash provided from financing activities	<u>6,112,406</u>	<u>3,864,516</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>803,549</b>	<b>762,802</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>2,976,392</b>	<b>2,213,590</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>3,779,941</b>	<b>2,976,392</b>



# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 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 302 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), including International Accounting Standards ("IAS"). The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

#### **Basis of Presentation of Financial Statements**

The Bank maintains its books of account in New Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, 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 consolidated subsidiaries 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 New 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, except for IFRS 4, 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 resulted in change to the Group's accounting policy in the presentation of minority interest under equity (IFRS1) that has affected the amounts reported for the current or prior years.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED**

**31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

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

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

***IFRS 4 Insurance Contracts***

IFRS 4 Insurance Contracts is applicable for annual periods beginning on or after 1 January 2005. IFRS 4 prescribes the financial reporting for insurance contracts by any entity that issues such contracts. It applies to insurance contracts issued, reinsurance contracts held and financial instruments issued with a discretionary participation feature. According to IFRS 4, an insurer shall assess at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss. According to IFRS 4, an insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts. An insurer shall also disclose information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts.

As the necessary liability adequacy tests are not performed and disclosure requirements are not met in the financial statements of Vakıf Emeklilik A.Ş. and Güneş Sigorta A.Ş. which are consolidated with the financial statements of Türkiye Vakıflar Bankası T.A.O. as explained in Note 3.3, impact of the application of IFRS 4 could not be quantified and reflected on the accompanying financial statements.

At the date of authorization of these financial statements, additional Standards and Interpretations were in issue but not yet effective. 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.

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

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

#### New Turkish Lira

A new law number 5083 was enacted with effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish Republic, the Turkish Lira ("TL"), to form a new currency the New Turkish Lira ("TRY" or "YTL"). Thus 1 YTL = 1,000,000 TL. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). The accompanying financial statements including comparatives are presented in New Turkish Lira ("YTL") since it is the official currency as at the balance sheet date.

#### Restatement of 2005 Financial Statements

Subsequent to the issuance of the Group's 2005 financial statements, the Group's management determined that the unrealized gain of YTL 107,196 Thousand arising from the difference between the carrying amount and fair value of Turkish Treasury Eurobonds in the available for sale portfolio for the year ended December 31, 2005 and described in Note 8.b) was mistakenly accounted for in the income statement as "interest income" rather than "revaluation reserve" directly in equity, in accordance with IAS 39 and the Company's accounting policy disclosed in Note: 3.6. The effect of this restatement on the Group's Balance Sheet, Statement of Income, Statement of Changes in Shareholders' Equity and Statement of Cash Flows is as follows:

	Previously Reported	As Restated
<u>Consolidated Balance Sheet / Statement of Changes in Shareholders Equity</u>		
Revaluation Fund	183,301	290,497
Retained Earnings	354,845	218,263
Minority interest	294,226	323,612
<u>Consolidated Income Statement</u>		
Interest Income	3,897,418	3,790,222
Minority Share of Net Income	50,145	32,104
Net Income	853,303	746,107
Earnings per share	1.065	0.946
<u>Consolidated Statement of Cash Flow</u>		
Net profit for the year	803,158	746,107
Change in minority interest	51,722	-

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED**

**31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

**3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted 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 subsidiaries maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

**3.2 Financial Reporting in Hyperinflationary Economies**

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;

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Financial Reporting in Hyperinflationary Economies (continued)

(d) Cumulative three-year inflation rate approaching or exceeding 100%.

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 35.61% for the three years ended 31 December 2005 based on the wholesale price index announced by the Turkish State Institute of Statistics. Although the cumulative rate in Turkey is 35.61%, below 100%, for the three years ended 31 December 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	1.7743
31 December 2002	6,478.8	1.3561
31 December 2003	7,382.1	1.1901
31 December 2004	8,403.8	1.0454
31 December 2005	8,785.7	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 \$	(0.22%)	(3.8%)	(14.6%)	13.5%	114.3%	24.4%
WPI Inflation	4.54%	13.8%	13.9%	30.8%	88.6%	32.7%

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED**

**31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

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

**3.2 Financial Reporting in Hyperinflationary Economies (continued)**

The principal adjustments related with inflation accounting 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 183,301 Thousand (Note 24).
- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- Non-monetary assets and liabilities are restated by applying, to the initial acquisition cost and any accumulated depreciation, the change in the general price index from the date of acquisition or initial recording to the balance sheet date. Hence, property, plant and equipment, investments and similar assets are restated from the date of their purchase, not to exceed their market value. Depreciation is similarly restated. The components of shareholders' equity are restated by applying the applicable general price index from the dates when components were contributed or otherwise arose.
- All items in the statement of income are restated by applying the relevant conversion factors, except for restatement of certain specific income statement items which arise from the restatement of non-monetary assets and liabilities like amortization and gain or loss on sale of fixed assets.
- The gain or loss on the net monetary position is the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets, liabilities, shareholders' equity and income statement items. The gain or loss on the net monetary position is included in the statement of income.

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Basis of 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):

	<u>Sector</u>	<u>Türkiye Vakıflar Bankası Ownership (%)</u>	<u>Auditors</u>
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 3.23. 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:

	<u>Effective Ownership (%)</u>
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 12.

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**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

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

**3.4 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.

**3.5 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.

**3.6 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.



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

**3.6 Financial instruments (continued)**

Investments (continued)

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 amortized cost would have been had the impairment not been recognised.

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. 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.

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.6 Financial instruments (continued)

##### Investments (continued)

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 December 31, 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.

##### 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 Group are recorded at the proceeds received, net of direct issue costs.

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

**3.6 Financial instruments (continued)**

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.

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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.6 Financial instruments (continued)

##### Fair value considerations (continued)

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

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.

#### 3.7 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.

#### 3.8 Premises and Equipment

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

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**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

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

**3.8 Premises and Equipment (continued)**

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.

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

Assets held under finance leases are recognized as assets of the Group 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.

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.

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

**3.10 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.

**3.11 Retirement Benefits**

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.

**3.12 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 31 December 2005 the fund does not have an actuarial deficit as at 31 December 2005 using a technical interest rate of 10.24%.

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

**3.13 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.

**3.14 Related Parties**

For the purpose of the accompanying financial statements shareholders of the Group and related companies, consolidated and non consolidated equity participations and related companies, directors and key management personnel together with their families and related companies and other companies are referred to as "Related Parties" in this report.

During the conduct of its business the Group had transactions and balances with related parties during the year. Certain significant balances and transactions with related parties as at the balance sheet date are set out in Note 32.

**3.15 Taxation and Deferred Taxes**

Taxes on income for the year consist of current tax and the change in deferred taxes. The Group 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 Group'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.

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.

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

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

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.

**3.16 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 3.6). 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 values 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.

**3.17 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.



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

**3.17 Risk Management (continued)**

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.

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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.17 Risk Management (continued)

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.

#### 3.18 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

	31.12.2005 000 YTL	31.12.2004 000 YTL
Liquid assets	282,613	191,429
Balances with the central bank	1,375,075	580,087
Balances with banks (excluding reserve deposits at the central bank)	2,122,253	2,204,876
	<u>3,779,941</u>	<u>2,976,392</u>

#### 3.19 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.

#### 3.20 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.

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

**3.21 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.

**3.22 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.

**3.23 Consolidation**

The consolidation includes the companies set out in note 3.3. 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.

**3.24 Earnings per share**

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to shares by the weighted average number of shares outstanding during the period concerned.

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, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and each earlier year. Such bonus shares issued during 2005 is 1,880,051,880 (2004: nil).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.24 Earnings per share (continued)

The earnings attributable to shares for each period were as follows:

	31.12.2005	31.12.2004
Net earnings attributable to ordinary shares	YTL 714,003,000	YTL 807,282,000
Weighted average number of shares in issue (YKr 1 each)	75,434,775,940	43,894,551,880
<b>Earnings per share (expressed in YTL per share)</b>	<b>0.946</b>	<b>1.839</b>

Basic earnings per share are calculated by dividing the net income or loss attributable to shareholders by the weighted average number of shares in issue.

There are no diluted shares and accordingly there are no diluted earnings per share.

#### 3.25 Business and Geographical Segments

##### *Business Segments*

For management purposes, the Group is currently organised into two operating divisions – banking and other financial operations. These divisions are the basis on which the Group reports its primary segment information.

##### *Geographical Segments*

The Group's operations are mainly located in Turkey. The results of the members of the Group outside Turkey are not material in the accompanying financial statements and accordingly, geographical segment information is not presented.

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**4. SEGMENT INFORMATION**

<u>STATEMENT OF INCOME</u> <u>Year ending 31 December 2005</u>	<u>Banking</u> <u>000 YTL</u>	<u>Other</u> <u>Financial</u> <u>000 YTL</u>	<u>Combined</u> <u>000 YTL</u>	<u>Eliminations and</u> <u>Adjustments</u> <u>000 YTL</u>	<u>Total</u> <u>000 YTL</u>
Interest income – Banking (As restated)	3,793,415	-	3,793,415	(3,193)	3,790,222
Interest expenses – Banking	(2,319,222)	-	(2,319,222)	3,193	(2,316,029)
Net Interest Income – Banking	1,474,193	-	1,474,193	-	1,474,193
Loan Loss Provision	(262,039)	-	(262,039)	-	(262,039)
Net interest income after loan loss provision	1,212,154	-	1,212,154	-	1,212,154
Non-interest income	745,113	1,236,291	1,981,404	(35,611)	1,945,793
Non-interest expense	(1,033,605)	(1,163,039)	(2,196,644)	18,477	(2,178,167)
Income from associates	10,403	2,351	12,754	(3,826)	8,928
Income before tax and monetary loss	934,065	75,603	1,009,668	(20,960)	988,708
Taxation	(173,804)	(15,619)	(189,423)	90	(189,333)
Income before monetary loss	760,261	59,984	820,245	(20,870)	799,375
Monetary Loss	(71,999)	(19,636)	(91,635)	38,367	(53,268)
Minority share (As restated)	-	(22)	(22)	(32,082)	(32,104)
Net Income/(Loss) (As restated)	688,262	40,326	728,588	(14,585)	714,003

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**4. SEGMENT INFORMATION (continued)**

<u>STATEMENT OF INCOME</u>	<u>Banking</u>	<u>Other</u>	<u>Combined</u>	<u>Eliminations and</u>	<u>Total</u>
<u>Year ending 31 December 2004</u>	<u>000 YTL</u>	<u>Financial</u>	<u>000 YTL</u>	<u>Adjustments</u>	<u>000 YTL</u>
Interest income – Banking	3,286,395	-	3,286,395	(12,661)	3,273,734
Interest expenses – Banking	(1,995,668)	-	(1,995,668)	17,785	(1,977,883)
Net Interest Income – Banking	<u>1,290,727</u>	<u>-</u>	<u>1,290,727</u>	<u>5,124</u>	<u>1,295,851</u>
Loan Loss Provision	(263,657)	-	(263,657)	91,386	(172,271)
Net interest income after loan loss provision	<u>1,027,070</u>	<u>-</u>	<u>1,027,070</u>	<u>96,510</u>	<u>1,123,580</u>
Non-interest income	884,334	1,204,387	2,088,721	19,886	2,108,607
Non-interest expense	(1,010,084)	(1,049,615)	(2,059,699)	(94,427)	(2,154,126)
Income from associates	54,184	3,818	58,002	23,330	81,332
Income before tax and monetary loss	<u>955,504</u>	<u>158,590</u>	<u>1,114,094</u>	<u>45,299</u>	<u>1,159,393</u>
Taxation	(188,818)	(6,587)	(195,405)	(7,110)	(202,515)
Income before monetary loss	<u>766,686</u>	<u>152,003</u>	<u>918,689</u>	<u>38,189</u>	<u>956,878</u>
Monetary Loss	9,833	(39,159)	(29,326)	(59,096)	(88,422)
Minority share	-	-	-	(61,174)	(61,174)
Net Income/(Loss)	<u>776,519</u>	<u>112,844</u>	<u>889,363</u>	<u>(82,081)</u>	<u>807,282</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**4. SEGMENT INFORMATION (continued)**

**BALANCE SHEET**

At 31 December 2005

	Banking 000 YTL	Other Financial 000 YTL	Combined 000 YTL	Eliminations 000 YTL	Total 000 YTL
Total Assets	33,258,633	1,773,563	35,032,196	(1,031,294)	34,000,902
Liabilities	28,671,545	858,175	29,529,720	(223,649)	29,306,071
Shareholders' Equity Before Net Income	3,898,826	875,062	4,773,888	(793,060)	3,980,828
Net Income (As restated)	688,262	40,326	728,588	(14,585)	714,003
Total Shareholders' Equity	4,587,088	915,388	5,502,476	(807,645)	4,694,831
Total Liabilities and Shareholders' Equity	33,258,633	1,773,563	35,032,196	(1,031,294)	34,000,902
<u>At 31 December 2004</u>					
Total Assets	26,104,968	1,678,254	27,783,222	(1,106,292)	26,676,930
Liabilities	23,989,763	791,628	24,781,391	(422,656)	24,358,735
Shareholders' Equity Before Net Income	1,338,686	773,781	2,112,467	(601,554)	1,510,913
Net Income	776,519	112,845	889,364	(82,082)	807,282
Total Shareholders' Equity	2,115,205	886,626	3,001,831	(683,636)	2,318,195
Total Liabilities and Shareholders' Equity	26,104,968	1,678,254	27,783,222	(1,106,292)	26,676,930

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

### 5. LIQUID ASSETS

	31.12.2005 000 YTL	31.12.2004 000 YTL
Cash balances – New Turkish Lira	249,743	152,097
Cash balances – Foreign currency	31,833	38,019
Other	1,037	1,313
	<u>282,613</u>	<u>191,429</u>

### 6. BALANCES WITH THE CENTRAL BANK

	31.12.2005 000 YTL	31.12.2004 000 YTL
<b>a) Balances with the Central Bank</b>		
Demand deposits – New Turkish Lira	1,126,000	341,667
Demand deposits – Foreign currency	249,075	7,032
	<u>1,375,075</u>	<u>348,699</u>
Time deposits – Foreign currency	-	231,099
	-	579,798
Income accruals	-	289
	<u>1,375,075</u>	<u>580,087</u>
<b>b) Reserve deposits at the Central Bank</b>		
Reserve Deposits – New Turkish Lira	-	333,365
Reserve Deposits – Foreign currency	663,002	655,810
	<u>663,002</u>	<u>989,175</u>
Income accruals	24,641	20,372
	<u>687,643</u>	<u>1,009,547</u>

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 New 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. Due to a change in regulations, starting from December 2005, the Banks are not obliged to set a reserve on blocked Central Bank accounts on local currency deposits and liabilities.



# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

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### 7. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2005 000 YTL	31.12.2004 000 YTL
DOMESTIC BANKS		
Current accounts – New Turkish Lira	25,571	1,040
Current accounts – Foreign currency	6,191	695
Time deposits – New Turkish Lira	552,325	253,491
Time deposits – Foreign currency	90,264	4,775
	<u>674,351</u>	<u>260,001</u>
FOREIGN BANKS		
Current accounts – New Turkish Lira	11,724	12
Current accounts – Foreign currency	78,362	50,564
Time deposits – New Turkish Lira	24,261	10,454
Time deposits – Foreign currency	1,331,135	1,881,487
	<u>1,445,482</u>	<u>1,942,517</u>
	<u>2,119,833</u>	<u>2,202,518</u>
Income accrual on balances with banks and other financial institutions	2,420	2,358
	<u>2,122,253</u>	<u>2,204,876</u>

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

### 8. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

a) Trading Securities Portfolio	As restated	
	31.12.2005	31.12.2004
	000 YTL	000 YTL
Government bonds and treasury bills	345,631	2,325,781
Eurobonds	555,543	764,473
Investment participation bills	24,841	31,569
Shares	3,259	2,438
Other	1,494	664
	<u>930,768</u>	<u>3,124,925</u>
Income accruals	193,205	233,088
	<u>1,123,973</u>	<u>3,358,013</u>
<b>b) Available for sale</b>		
Government bonds and treasury bills	8,568,139	4,523,524
Eurobonds	1,047,622	1,145,973
Other	1,183	103,136
	<u>9,616,944</u>	<u>5,772,633</u>
Income accruals	684,926	204,016
	<u>10,301,870</u>	<u>5,976,649</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 31 December 2005 are issued by the Republic of Turkey in foreign currencies and mature through the years 2006-2034. 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 127,057 Thousand gain recognized in income statement as interest income,
- ii) for available for sale portfolio, YTL 107,196 Thousand gain recognized directly in equity.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED****31 DECEMBER 2005 AND 31 DECEMBER 2004****(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)****8. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES  
(continued)****c) Held to Maturity Securities**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Government bonds and treasury bills	510,509	982,582
Other	52,523	33,858
	<u>563,032</u>	<u>1,016,440</u>
Income accrual	27,378	61,674
	<u>590,410</u>	<u>1,078,114</u>

Held to maturity securities as at 31.12.2005 have a fair value of YTL 545,458 Thousand. Of the held to maturity securities, government bonds and treasury bills have a fair value of YTL 501,245 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 3.6, held to maturity securities are intended to be held till the maturity date.

Securities portfolio includes YTL 86,414 Thousand (31.12.2004: YTL 874,313 Thousand) of securities sold with agreements to repurchase ("repo") as at the balance sheet date.

YTL 1,991,450 Thousand (31.12.2004: YTL 2,703,034 Thousand) of the securities portfolio are blocked securities for legal requirements and kept as guarantee for İstanbul Stock exchange transactions, Interbank Money Market transactions, liquidity guarantee and foreign currency market guarantee.

Blocked securities according to restriction type as at 31.12.2005 is as follows;

	<b>Takasbank</b>	<b>TCMB</b>	<b>İstanbul</b>	<b>Accruals</b>	<b>Total</b>
	<b>000 YTL</b>	<b>Interbank</b>	<b>Stock</b>	<b>000 YTL</b>	<b>000 YTL</b>
		<b>000 YTL</b>	<b>Exchange</b>		
			<b>000 YTL</b>		
Held for trading	17,441	-	-	5,476	22,917
Available for sale	262,598	1,059,550	162,513	143,225	1,627,886
Held to maturity	-	330,063	-	10,584	340,647
	<u>280,039</u>	<u>1,389,613</u>	<u>162,513</u>	<u>159,285</u>	<u>1,991,450</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

**9. LOANS - NET**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Short term loans	7,265,034	7,167,509
Medium and long term loans	5,104,964	1,681,701
Overdue loans	1,092,477	937,177
Less: Provision for loans	(1,092,410)	(937,115)
Interest and other accruals on loans	147,499	119,391
	<u>12,517,564</u>	<u>8,968,663</u>

A breakdown of loans can be given as follows:

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
<i><u>Short Term Loans</u></i>		
Discount and purchase bills	59,753	912
Export loans unsecured	24,664	34,155
Secured export loans	1,069,596	991,954
Other unsecured loans	2,163,624	1,459,034
Other secured loans(*)	3,769,301	4,313,932
Loans given to financial sector	11,193	59,464
Loans given to foreign institutions	4,395	3,795
Rescheduled loans	91,754	168,218
Finance lease receivables	70,754	109,319
Factoring receivables	-	26,726
	<u>7,265,034</u>	<u>7,167,509</u>
<i><u>Medium and Long Term Loans</u></i>		
Unsecured loans with export obligations	142,474	175,329
Secured loans with export obligations	811,418	840,799
Secured other inv. and operating loans	3,592,569	220,628
Other unsecured loans	409,460	314,404
Loans given to financial sector	-	4,927
Finance Lease Receivables	111,230	125,614
Factoring receivables	37,813	-
	<u>5,104,964</u>	<u>1,681,701</u>
	<u>12,369,998</u>	<u>8,849,210</u>

(\*) YTL 2,396,193 Thousand of other secured loans as at 31 December 2005 consists of consumer loans (31.12.2004: YTL 3,474,413 Thousand).

**TÜRKİYE VAKIFLAR BANKASI T.A.O.****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED****31 DECEMBER 2005 AND 31 DECEMBER 2004****(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)****9. LOANS -NET (continued)**

Movement for loan loss provision:

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
At 1 January	937,115	1,183,411
Charge for the year	262,549	283,366
Write-offs	(42)	-
Provision released	(66,473)	(385,790)
Effect of indexation	(40,739)	(143,872)
At period end	<u>1,092,410</u>	<u>937,115</u>

Loans can be further analyzed by currency and sector as follows:

	<b>31.12.2005</b>	<b>31.12.2004</b>
<b>Currency</b>	<b>000 YTL</b>	<b>000 YTL</b>
Turkish Lira	8,337,243	5,599,255
US Dollars	2,734,207	2,066,484
Euro	1,260,948	1,146,681
CHF	7,538	28,148
Other currencies	30,062	8,642
	<u>12,369,998</u>	<u>8,849,210</u>

The Bank extends short term loans to customers with maturities mainly of within one year. Interest rates charged for loans varied between 20% and 30% (31 December 2004: 27% and 60%) for Turkish Lira loans and 4% and 7% (31 December 2004: 4.5% and 7%) for foreign currency loans per annum during the year.

<b>Sector</b>	<b>2005</b>	<b>2004</b>
	<b>%</b>	<b>%</b>
Manufacturing	19	21
Construction	6	6
Trade	19	22
Retail and consumer	55	50
Other	1	1
	<u>100</u>	<u>100</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

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**10. TRADE RECEIVABLES**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Receivables from insurance customers	277,557	107,079
Other trade receivables	14,234	55,812
Doubtful trade receivables	15,029	13,803
Less: Provision for doubtful receivables	<u>(13,930)</u>	<u>(13,420)</u>
	<u>292,890</u>	<u>163,274</u>

**11. SUNDRY DEBTORS**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Receivables from personnel	98	185
Receivables for banking services	562	573
Receivables from sale of assets	79,277	45,848
Receivables from credit card transactions	10,202	14,915
Receivables from court case expenses	18,138	15,745
Other sundry debtors	<u>10,292</u>	<u>11,224</u>
	<u>118,569</u>	<u>88,490</u>

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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### 12. EQUITY PARTICIPATIONS -NET

“Available for sale assets” under IAS 39 classification:

	Percent Owned 12.2005 (%)	31.12.2005 000 YTL	31.12.2004 000 YTL
Banque Du Bosphore (*)	20.00	6,366	8,181
Ortadoğu Yazılım Hizmetleri A.Ş. (*)	25.23	5,602	3,725
Bankalararası Kart Merkezi A.Ş.	9.70	1,175	1,175
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	122	214
Güney Ege Enerji İşlt.Ltd.Şti.	38.19	221,622	221,470
İMKB Takas ve Saklama Bankası A.Ş.	5.28	9,599	9,599
İzmir Enternasyonal Otelcilik A.Ş.	5.00	6,461	6,461
Kıbrıs Vakıflar Bankası Ltd.	15.00	3,375	1,379
Kredi Kayıt Bürosu A.Ş.	9.09	1,792	1,792
Türkiye Sınai Kalkınma Bankası A.Ş. (**)	8.38	77,375	16,487
Vak-Bel İthalat A.Ş.	84.66	12,919	12,919
Vakıf Gayrimenkul Ekspertiz ve Değ. A.Ş.	27.44	866	449
Vakıf İnşaat Restorasyon A.Ş.	16.76	8,133	7,958
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	21.64	3,965	3,646
Vakıf Girişim Sermayesi Yat. Ort. A.Ş. (**)	46.44	6,856	3,210
Vakıf Sistem Pazarlama A.Ş.	79.75	7,010	8,317
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	12.19	35,498	35,498
Other		907	2,657
		<u>409,643</u>	<u>345,137</u>
Provision for diminution in value of participations (-) (***)		<u>(54,566)</u>	<u>(50,475)</u>
		<u>355,077</u>	<u>294,662</u>

(\*): Accounted for under the equity method.

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

(\*\*\*): YTL 33,067 Thousand, YTL 12,919 Thousand, YTL 4,552 Thousand and YTL 424 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.

## **TÜRKİYE VAKIFLAR BANKASI T.A.O.**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED**

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#### **12. 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 31 December 2005 is YTL 221,622 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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**13. PREMISES AND EQUIPMENT**

	Land & Buildings 000 YTL	Vehicles, furniture & equipment and leasehold improvements 000 YTL	Other Tangibles 000 YTL	Intangible Assets 000 YTL	Total 000 YTL
<b>Acquisition Cost</b>					
Opening Balance at 1 January 2005	1,436,935	400,405	29,180	25,193	1,891,713
Additions	72,640	61,225	1,032	8,439	143,336
Disposals	(168,230)	(8,062)	(13,497)	(11,181)	(200,970)
Closing Balance 31 December 2005	1,341,345	453,568	16,715	22,451	1,834,079
<b>Accumulated Depreciation (-)</b>					
Opening Balance at 1 January 2005	137,431	329,814	6,578	10,877	484,700
Charge for the Year	57,380	44,461	9,353	9,446	120,640
Disposals	(15,922)	(4,450)	(7,162)	(2,388)	(29,922)
Closing Balance 31 December 2005	178,889	369,825	8,769	17,935	575,418
<b>Net Book Values at 31 December 2005</b>	<b>1,162,456</b>	<b>83,743</b>	<b>7,946</b>	<b>4,516</b>	<b>1,258,661</b>
Movement for revaluation of premises and equipment:					
Opening (01 January 2005):	53,218				
Additions:	-				
Disposal:	(3,291)				
Closing (31 December 2005):	49,927				

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

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**31 DECEMBER 2005 AND 31 DECEMBER 2004**

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

**13. PREMISES AND EQUIPMENT (continued)**

	Land & Buildings 000 YTL	Vehicles, furniture & equipment and leasehold improvements 000 YTL	Other Tangibles 000 YTL	Intangible Assets 000 YTL	Total 000 YTL
<b>Acquisition Cost</b>					
Opening Balance at 1 January 2004	1,596,145	392,065	13,022	20,362	2,021,594
Additions	41,495	31,208	16,158	10,080	98,941
Disposals	(200,705)	(22,868)	-	(5,249)	(228,822)
Closing Balance 31 December 2004	1,436,935	400,405	29,180	25,193	1,891,713
<b>Accumulated Depreciation (-)</b>					
Opening Balance at 1 January 2004	153,892	295,971	5,495	1,402	456,760
Charge for the Year	25,527	40,152	1,083	10,601	77,363
Disposals	(41,988)	(6,309)	-	(1,126)	(49,423)
Closing Balance 31 December 2004	137,431	329,814	6,578	10,877	484,700
Net Book Values at 31 December 2004	1,299,504	70,591	22,602	14,316	1,407,013

Movement for revaluation of premises and equipment:

Opening (01 January 2004):	97,844
Additions:	-
Disposal:	44,626
Closing (31 December 2004):	53,218

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

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

31 DECEMBER 2005 AND 31 DECEMBER 2004

(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)

### 14. OTHER ASSETS

	31.12.2005 000 YTL	31.12.2004 000 YTL
Deferred acquisition cost	33,396	30,736
Prepaid expenses	36,246	21,999
Prepaid taxes	195,378	98,102
Investment properties	22,629	23,893
Inventories	2,135	7,203
Other(*)	34,565	23,612
	<u>324,349</u>	<u>205,545</u>

(\*) Other includes YTL 14,525 Thousand of transfer orders in process resulting from time zone differences among countries (31.12.2004: YTL 14,966 Thousand).

### 15. DEPOSITS

	Demand 000 YTL	Time 000 YTL	31 December 2005 Total 000 YTL	31 December 2004 Total 000 YTL
Savings and certificates of deposit	547,123	3,123,438	3,670,561	1,922,738
Public, commercial and other deposits	2,281,595	9,927,344	12,208,939	9,347,588
Interbank deposits	1,165	621,862	623,027	1,000,458
Foreign currency deposits	1,000,168	5,641,036	6,641,204	6,328,900
	<u>3,830,051</u>	<u>19,313,680</u>	<u>23,143,731</u>	<u>18,599,684</u>
Expense accruals on deposits			218,226	160,275
			<u>23,361,957</u>	<u>18,759,959</u>

The time deposits mainly have maturity periods of less than one year. The Bank has applied interest rates to New 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).

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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### 16. BORROWINGS

	31.12.2005 000 YTL	31.12.2004 000 YTL
Borrowings from domestic banks and institutions	381,434	296,562
Borrowings from overseas banks and institutions	3,409,449	2,838,004
Subordinated loans	-	223,040
Interest and other expense accruals	21,591	24,818
	<u>3,812,474</u>	<u>3,382,424</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:

	31.12.2005 000 YTL	31.12.2004 000 YTL
Within one year	2,185,596	2,056,898
1-2 years	52,886	351,283
2-3 years	3,869	1,102
3-4 years	1,632	222,035
Over four years	1,568,491	751,106
	<u>3,812,474</u>	<u>3,382,424</u>

# TÜRKİYE VAKIFLAR BANKASI T.A.O.

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#### 17. 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.

#### 18. TRADE PAYABLES

	31.12.2005 000 YTL	31.12.2004 000 YTL
Trade payables	101,942	44,574
Payables to insurance companies	25,689	28,570
Other trade payables	17,292	3,470
	<u>144,923</u>	<u>76,614</u>

#### 19. SUNDRY CREDITORS

	31.12.2005 000 YTL	31.12.2004 000 YTL
Cash guarantees	11,535	5,225
Reserved cash	53	19,575
Payables to funds	3,158	16,703
Advances received	2,656	-
Dividend payables	16	-
Credit card payments	195,852	-
Other	62,530	32,538
	<u>275,800</u>	<u>74,041</u>

#### 20. 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 utilized.

## **TÜRKİYE VAKIFLAR BANKASI T.A.O.**

### **NOTES TO THE FINANCIAL STATEMENTS**

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**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

#### **20. TAXATION (continued)**

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.

# **TÜRKİYE VAKIFLAR BANKASI T.A.O.**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED**

**31 DECEMBER 2005 AND 31 DECEMBER 2004**

**(expressed in the equivalent purchasing power of New Turkish Lira at 31 December 2005)**

### **20. 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.

**TÜRKİYE VAKIFLAR BANKASI T.A.O.****NOTES TO THE FINANCIAL STATEMENTS  
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	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Corporation tax, withholding tax and funds	262,945	256,869
Deferred tax liability/(assets)- net	(102,215)	(99,993)
Other taxes and dues	41,637	42,168
	<u>202,367</u>	<u>199,044</u>

**b) Statement of income: Taxes**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Corporation tax, withholding tax and funds	273,057	259,966
Charge / (benefit) for deferred tax	(83,724)	(57,451)
	<u>189,333</u>	<u>202,515</u>

The major cumulative temporary differences are as follows:

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Fixed assets indexation difference and revaluation surplus	(137,218)	(157,099)
Retirement pay provision	(76,259)	(86,926)
Other temporary differences (total)	(107,542)	(88,973)
<b>NET CUMULATIVE TEMPORARY DIFFERENCES</b>	<u><b>(321,019)</b></u>	<u><b>(332,998)</b></u>
<b><u>Movement of Deferred Tax (Assets)/Liabilities:</u></b>		
Opening balance	(99,993)	(21,139)
Deferred tax benefit	(2,222)	(78,854)
Closing balance	<u>(102,215)</u>	<u>(99,993)</u>



# TÜRKİYE VAKIFLAR BANKASI T.A.O.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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### 21. PROVISIONS

	31.12.2005 000 YTL	31.12.2004 000 YTL
PROVISIONS FOR RETIREMENT PAY		
At 1 January	87,426	82,805
Provision for the period (net)	11,083	14,688
Monetary loss	(3,800)	(10,067)
At period end	<u>94,709</u>	<u>87,426</u>
GENERAL LOAN PROVISION		
At 1 January	64,571	55,761
Provision and release for the period – net	25,298	15,589
Monetary loss	(2,807)	(6,779)
At period end	<u>87,062</u>	<u>64,571</u>
PROVISION FOR NON-CASH LOANS	119,886	59,616
INSURANCE COMPANIES TECHNICAL PROVISIONS	446,459	384,607
OTHER PROVISIONS (*)	129,584	62,108
TOTAL PROVISIONS	<u>877,700</u>	<u>658,328</u>

(\*) Other provisions as at 31.12.2005 include YTL 90,000 Thousand (31.12.2004 : YTL 52,272 Thousand) of value loss provision for Güney Ege case explained at Note 12.

#### 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 31 December 2005, subject to a maximum of YTL 1,727.15 YTL per month (2004: YTL 1,646.27 per month at indexed values).

#### 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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**NOTES TO THE FINANCIAL STATEMENTS  
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**22. MATURITY ANALYSIS**

**As at 31 December 2005**

**ASSETS**

Liquid assets	282,613							
Banks (including Central Bank)	3,448,642							
Interbank funds sold (including reverse repurchases)	2,649,955							
Securities portfolio	1,199,188	291,583	4,080,517	6,444,965	12,016,253			
Loans	2,217,807	736,046	3,360,043	6,203,668	12,517,564			

**LIABILITIES**

Deposits	7,482,291	10,941,018	3,989,780	948,868	23,361,957			
Securities sold under repo agreements	73,481	139,608	-	-	213,089			
Bank borrowings	154,439	46,329	1,984,828	1,626,878	3,812,474			
Funds	-	-	151,597	-	151,597			

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

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continued

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

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**31 DECEMBER 2005 AND 31 DECEMBER 2004**

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**22. MATURITY ANALYSIS (continued)**

As at 31 December 2004	Up to 1 Month 000 YTL	1 to 3 Months 000 YTL	3 to 12 Months 000 YTL	Greater than 1 year 000 YTL	(*) Total 000 YTL
<b>ASSETS</b>					
Liquid assets	191,429	-	-	-	191,429
Banks (including Central Bank)	2,746,612	74	6,101	32,176	2,784,963
Interbank funds sold	1,150,568	-	-	-	1,150,568
Securities portfolio	560,948	72,583	3,451,408	6,327,837	10,412,776
Loans	1,738,839	587,622	2,225,907	4,416,295	8,968,663
<b>LIABILITIES</b>					
Deposits	7,994,299	7,599,230	2,321,125	845,305	18,759,959
Securities sold under repo agreements	305,305	71,276	265,493	-	642,074
Borrowings funding loans	206,293	228,814	1,580,402	1,366,915	3,382,424
Funds	173,667	-	-	-	173,667

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED

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### 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.

Class of Shares	%	31.12.2005 000 YTL	%	31.12.2004 000 YTL
Vakıflar Genel Müdürlüğü (A Class)	43.00	550,000	55.00	231,080
Vakıflar Genel Müdürlüğü (B Class)	15.45	197,592	19.75	82,977
Mazbut ve Mülhak Vakıflar (B Class)	0.19	2,408	0.25	1,052
Vakıfbank Employee Pension Fund (C Class)	16.10	205,946	24.89	104,593
Individuals and Legal Entities (C Class)	0.08	1,054	0.11	443
Other	25.18	322,000	-	-
Paid capital per statutory records		<u>1,279,000</u>		<u>420,145</u>
Indexation effect		1,413,703		1,374,054
Indexed Share Capital		<u>2,692,703</u>		<u>1,794,199</u>

### 24. REVALUATION FUND

	As restated 31.12.2005 000 YTL	31.12.2004 000 YTL
-Fixed assets	49,927	53,218
-Available for sale securities portfolio	240,570	49,398
	<u>290,497</u>	<u>102,616</u>

### 25. 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.

	As restated 31.12.2005 000 YTL	31.12.2004 000 YTL
-Paid in capital	346,571	342,486
-Revaluation fund	5,362	8,400
-Retained Earnings	(28,321)	(60,425)
	<u>323,612</u>	<u>290,461</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.****NOTES TO THE FINANCIAL STATEMENTS  
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	<b>As restated</b>	
	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Interest on loans	1,910,412	1,619,134
Interest on securities portfolio	1,478,060	1,434,175
Interest on deposits at banks	57,339	19,868
Interest on interbank funds sold	252,594	120,801
Interest on reserve requirement	91,273	79,320
Other interest income	544	436
	<u>3,790,222</u>	<u>3,273,734</u>

**27. INTEREST EXPENSE - BANKING**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Interest expense on deposits	2,167,751	1,807,598
Interest expense on interbank funds borrowed	26,993	61,784
Interest on borrowings	118,410	106,150
Other interest expense	2,875	2,351
	<u>2,316,029</u>	<u>1,977,883</u>

**28. NON-INTEREST INCOME**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Banking services income	459,604	357,926
Income from capital market transactions	246,633	231,787
Foreign exchange gains – net	48,349	91,935
Reversal of unnecessary provision	75,753	213,757
Fixed asset sales revenue	9,566	96,708
Previous period income	7,010	-
Rent income	2,808	-
Insurance technical income	1,004,296	995,523
Leasing technical income	33,011	34,218
Other (*)	58,763	86,753
	<u>1,945,793</u>	<u>2,108,607</u>

(\*) Major components are fees charged for miscellaneous banking activities and communication income.

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	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Commissions and fees paid	99,250	81,149
Other provisions	204,086	177,444
Personnel expenses	362,441	345,415
Taxes and dues	31,444	33,872
Depreciation expenses	120,640	77,363
Retirement pay provision	11,083	15,750
Insurance technical expense	1,035,353	950,211
Leasing technical expense	14,057	14,010
Other expenses (*)	299,813	458,912
	<u>2,178,167</u>	<u>2,154,126</u>

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

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Computer hardware expenses	9,371	11,646
Donations	46,578	84,951
Advertisement expense	39,557	33,062
Rent expense	40,046	37,550
Communication expense	29,693	30,411
Fixed assets sales losses	18,124	2,760
Prior year expenses	7,324	15,744
TMSF expenses	17,712	18,102
Others	91,408	224,686
	<u>299,813</u>	<u>458,912</u>

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### FOR THE PERIODS ENDED

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### 30. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	<b>As restated</b>	
	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Letters of Guarantee		
- in New Turkish Lira	1,668,791	1,419,823
- in Foreign Currency	1,400,943	1,284,971
Letters of Credit	1,275,742	1,020,144
Acceptance Loans	303,673	288,788
Other Commitments	2,872,345	2,834,164
	<u>7,521,494</u>	<u>6,847,890</u>

### 31. FOREIGN CURRENCY POSITION

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>000 YTL</b>	<b>000 YTL</b>
Total foreign currency assets	11,258,099	10,647,324
Total foreign currency liabilities	(11,123,293)	(11,154,052)
Net foreign currency position	<u>134,806</u>	<u>(506,728)</u>

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**32. RELATED PARTY TRANSACTIONS**

*a) Deposits and Commitments to Repurchase Securities*

Deposits :

Vakıfbank Employee Pension Fund has deposits amounting to YTL 400,100,063 and securities amounting to YTL 614,374,129 held within the Bank as at December, 31 2005.

Related interest income earned by Vakıfbank Employee Pension Fund on deposits and securities for the year of 2005 is YTL 98,332,876 and YTL 92,650,143 respectively.

Vakıfbank Employee Pension Fund has deposits amounting to YTL 255,296,669 and securities amounting to YTL 128,768,675 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 4,254,924 for the six month period ended 31 December 2005.

**33. SUBSEQUENT EVENTS**

The employment termination indemnity ceiling has been increased to YTL 1,770.62 commencing on 1 January 2006 (See Notes 3.11 and 21).

The Bank has sold its shares in Banque du Bosphore to Axa Compagnie Financiere De Paris for Euro 4,402,000 on 10 March 2006.