

OPINION OF INDEPENDENT AUDITORS

To The Board Of Directors
Türkiye Vakıflar Bankası T.A.O.
Ankara

1. We have audited the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası T.A.O. (the Bank) and its affiliates (together the "Group") as of 31 December 2006, and the related consolidated statements of income, shareholders' equity and cash flow for the year then ended. 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 review.
2. The consolidated financial statements as of 31 December 2005, which are presented for comparative purposes in the accompanying consolidated financial statements, have been audited by other auditors. Their report with respect to the financials for the year ending 31 December 2005 has expressed unqualified opinion except for the application of IFRS 4.
3. Except for limitations set out in paragraph 4 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 as to 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.
4. 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.

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5. In our opinion, except for such adjustments as may be necessary in respect of the matters discussed in paragraph 4 above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2006 and consolidated results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Istanbul, May 25, 2007

KAPİTAL BAĞIMSIZ DENETİM VE
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Correspondent Firm of RSM International

N. Lokman Ketenci
Partner in Charge


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TÜRKİYE VAKIFLAR BANKASI T.A.O.

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2006 AND

31 DECEMBER 2005 (Currency- Thousands of New Turkish Lira (YTL))

<u>Assets</u>	<u>Note</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Liquid Assets	4	413.089	282.613
Balances with the Central Bank	5	1.549.486	1.375.075
Balances with Banks	6	3.160.766	2.122.253
Interbank Funds Sold		751.093	1.500.000
Receivables from Reverse Repurchase Securities		120.922	1.149.955
Trading Securities Portfolio	7a	572.081	1.123.973
Available for Sale Portfolio	7b	10.190.500	10.301.870
Reserve Deposits at the Central Bank	5b	823.960	687.643
Loans, net	8	18.706.855	12.517.564
Trade Receivables	9	414.422	292.890
Sundry Debtors	10	247.409	118.569
Equity Participations, net	11	357.232	355.077
Held to Maturity Securities	7c	280.303	590.410
Premises and Equipment, net	12	1.109.034	1.258.661
Other Assets	13	222.886	324.349
TOTAL ASSETS		<u><u>38.920.038</u></u>	<u><u>34.000.902</u></u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.**CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2006****AND 31 DECEMBER 2005** (Currency- Thousands of New Turkish Lira (YTL))

<u>Liabilities</u>	<u>Note</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Deposits			
Demand		4.318.856	3.830.051
Time		20.500.244	19.313.680
Expense accrual on deposits		248.768	218.226
	14	<u>25.067.868</u>	<u>23.361.957</u>
Commitments to Repurchase Securities		1.488.248	213.089
Borrowings Funding Loans	15	5.385.727	3.812.474
Funds	16	139.922	151.597
Trade Payables	17	265.505	144.923
Deposits and Advances Taken for Imports		94.619	127.586
Sundry Creditors	18	327.349	275.800
Taxes and Dues Payable	19a	118.180	202.367
Provisions	20	939.662	877.700
Other Liabilities		93.953	138.578
Total Liabilities		<u>33.921.033</u>	<u>29.306.071</u>
SHAREHOLDERS' EQUITY			
Share Capital	22	3.300.146	2.692.703
Revaluation Fund		224.662	290.497
Share Premium		721.551	1.169.756
Retained Earnings		403.688	218.263
Minority Interest	23	348.958	323.612
Total Equity		<u>4.999.005</u>	<u>4.694.831</u>
Total Liabilities and Shareholders' Equity		<u>38.920.038</u>	<u>34.000.902</u>
COMMITMENTS AND CONTINGENCIES	28	<u>8.266.140</u>	<u>7.521.494</u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005**

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

	<u>Note</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Interest Income - Banking	24	4.417.128	3.790.222
Interest (Expense)- Banking	25	<u>(2.861.675)</u>	<u>(2.316.029)</u>
Net Interest Income- Banking		1.555.453	1.474.193
Loan Loss Provision (Expense)		(161.100)	(262.039)
NET INTEREST INCOME AFTER LOAN LOSS PROVISIONS		1.394.353	1.212.154
Non - Interest Income	26	1.869.860	1.945.793
Non- Interest (Expense)	27	(2.276.060)	(2.178.167)
Income from Associates		49.773	8.928
INCOME BEFORE TAX AND MONETARY (LOSS)		1.037.926	988.708
Taxation	19b	<u>(243.937)</u>	<u>(189.333)</u>
INCOME BEFORE MONETARY (LOSS)		793.989	799.375
Monetary (Loss)		<u>-</u>	<u>(53.268)</u>
NET INCOME		793.989	746.107
Attributable to :			
Equity holders of T. Vakıflar Bankası T.A.O		766.511	714.003
Minority Interest		27.478	32.104
Total		<u>793.989</u>	<u>746.107</u>
Earnings per Share	3.25	0,581	0,946

TÜRKİYE VAKIFLAR BANKASI T.A.O.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 2005**

	31.12.2006	31.12.2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	766.511	746.107
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78.826	120.640
Provision for retirement pay	25.199	11.083
General loan loss provision	43.401	25.298
Provisions for non-cash loans	(21.026)	60.270
Insurance technical provisions	18.985	61.852
Loan loss provisions	161.100	155.295
Other provisions	(4.597)	67.476
(Increase)/decrease in taxation on income and deferred taxes	(84.187)	3.323
Decrease /(increase) in interbank funds sold - net	748.907	(349.432)
(Increase)/decrease in reserve deposits at Central Bank	(136.317)	321.904
(Increase) in other assets	(148.909)	(231.270)
Decrease/(increase) in securities portfolio	973.369	(1.412.304)
(Increase) in loans	(6.189.291)	(3.704.196)
Decrease/(increase) in receivables from reverse repurchase securities	1.029.033	(1.149.954)
Net cash (used in) operating activities	<u>(2.738.996)</u>	<u>(5.273.908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(increase) in equity participations	(2.155)	(60.415)
Disposals from premises and equipment - net	70.801	25.466
Net cash provided from investing activities	<u>68.646</u>	<u>(34.949)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	1.705.911	4.601.998
Increase/(decrease) in securities under repo agreement	1.275.159	(428.985)
Increase in funds borrowed	1.573.253	430.050
(Decrease) in funds	(11.675)	(22.070)
Increase in other liabilities	94.539	87.468
Change in minority interest and other items in shareholders' equity	(183.351)	1.448.139
Cash dividends paid	(440.351)	(4.194)
Net cash provided from financing activities	<u>4.013.485</u>	<u>6.112.406</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1.343.135	803.549
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>3.779.941</u>	<u>2.976.392</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>5.123.076</u>	<u>3.779.941</u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 2005
(Currency- Thousands of New Turkish Lira (YTL))**

	Paid in Capital	Revaluation Fund	Share Premium	Retained Earnings	Minority Interest	Total
As at 31.12.2004	1.794.199	102.616	-	130.919	290.461	2.318.195
Capital Increase	620.121	-	-	(620.121)	-	-
Cash increase	278.383	-	1.169.756	-	4.085	1.452.224
Changes in minority	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
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
As at 31.12.2005	2.692.703	290.497	1.169.756	218.263	323.612	4.694.831
As at 31.12.2005	2.692.703	290.497	1.169.756	218.263	323.612	4.694.831
Capital Increase	607.443	-	(448.205)	(159.238)	-	-
Changes in minority	-	-	-	-	-	-
Other changes	-	-	-	20.883	-	20.883
Valuation differences for foreign subsidiaries	-	-	-	(2.380)	-	(2.380)
Dividends paid	-	-	-	(440.351)	-	(440.351)
Profit for the period	-	-	-	766.511	27.478	793.989
Additions and disposals from revaluation fund, net	-	(65.835)	-	-	(2.132)	(67.967)
As at 31.12.2006	3.300.146	224.662	721.551	403.688	348.958	4.999.005

TÜRKİYE VAKIFLAR BANKASI T.A.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

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 headquarter located in Ankara. Vakıfbank provides retail, commercial and investment banking services through its network of 427 branches (including) 4 finance services, and 4 mobile branches distributed throughout Turkey. Internationally, Vakıfbank has subsidiaries in Austria, and Cyprus, and branches in New York and Bahrain.

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 and its Turkish affiliates maintain their books of accounts and prepare their financial statements in New Turkish Lira (YTL) , which is the currency of the primary economic environment in which the Bank operates, in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank' s foreign affiliates maintain their books of account and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate. The financial statements of the foreign affiliates are translated to YTL at foreign exchange rates ruling at the balance sheet date.

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

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

2. BASIS OF FINANCIAL STATEMENTS (continued)

Adoption of New Revised IFRSs

IFRS 4 Insurance Contracts

IFRS 4 Insurance Contract is applicable for annual periods beginning on or after 1 January 2005. IFRS 4 prescribes the financial reporting 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 in the accompanying consolidated financial statements.

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 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.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial Reporting in Hyperinflationary Economies

Financial statements of the Bank and its Turkish affiliates have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 'Financial Reporting in Hyperinflationary Economies' as of 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that 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%. The three year cumulative three- year inflation rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics. By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilization in financial and money markets, decrease in interest rates and the appreciation of Turkish Lira against USD and other hard currencies, it has been declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Accordingly, IAS 29 has not been applied in the accompanying consolidated financial statements as of and for the year ended 31 December 2006.

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. 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.
- 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.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED
31 DECEMBER 2006 AND 31 DECEMBER 2005
(Currency- Thousand New Turkish Lira unless otherwise expressed)**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial Reporting in Hyperinflationary Economies (continued)

- 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 conversation factors, except for restatement of certain specific income statements 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 statements 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Basis of Consolidation

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

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):

	Türkiye Vakıflar Bankası		
	<u>Sector</u>	<u>Ownership (%)</u>	<u>Auditors</u>
Vakıf Emeklilik A.Ş.	Insurance	53.90	Kapital
Güneş Sigorta A.Ş.	Insurance	36.35	Kapital
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	68.55	Avrasya
Vakıf Finansal Kiralama A. Ş.	Leasing	58.71	Avrasya
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other Financial	27.63	Avrasya
Vakıf Yatırım Menkul Değerler A.Ş.	Other Financial	99.00	Kapital
World Vakıf Offshore Ltd.	Banking	82.00	Kapital
Vakıf Finans Factoring A.Ş.	Other Financial	78.39	Avrasya
Taksim Otelcilik A.Ş.	Tourism	51.00	Avrasya
Vakıfbank International Wien AG	Banking	90.00	Deloitte
Vakıf Enerji ve Madencilik	Energy	65.50	-

The financial statements of the above entities are consolidated with those of Türkiye Vakıflar Bankası T.A.O. in the accompanying consolidated 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 3.24. The ownership percentages set out above do not include cross-holdings.

Although, the Bank’s ownership in Güneş Sigorta 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.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Basis of Consolidation (continued)

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:

	Effective	
	<u>Ownership (%)</u>	
	31.12.2006	31.12.2005
Banque Du Bosphore	-	20.00
Ortadoğu Yazılım Hizmetleri A.Ş.	9.00	25.23

The Bank sold its shareholding in its participation Banque Du Bosphore, equal to 20% of the share capital of the participation and EUR 3,200,000 in value, for thousand YTL 6,949 in cash on March 10, 2006.

Ortadoğu Yazılım Hizmetleri A.Ş has not been included in consolidation as of 31 December 2006 since the shareholding percentage is below 20% as of 31 December 2006.

Other investments and certain immaterial subsidiaries and associates are accounted for at cost.

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.

Exchange gains arising from revaluation of Turkish Lira loans which are indexed to foreign currencies are included in the statement of income.

3.5 Foreign Currency Items

Transactions denominated 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 the exchange rates ruling at the balance sheet date with the resulting exchange differences recognized in the income statement as foreign exchange gain or loss.

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.

Gains and losses arising from foreign currency transactions are reflected in the income statement as realized during the period.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 balance sheet. The Group trades in financial instruments for customer facilitation and as principal.

Investments

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

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

TÜRKİYE VAKIFLAR BANKASI T.A.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial Instruments

Investments (continued)

The Group's investments primarily represent 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 procedures (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.

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.

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(Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial Instruments (continued)

Fair value is amount for which an asset could be exchanged or 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 is short- term and bear interest rates that are subject to fluctuation at short notice in accordance with prevailing market rates in the market. Management believes that the risk factors embedded in the entry value of the interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

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

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (total government) securities. Sales of securities under agreements of repurchase (“Repos”) are retained in the balance sheet under liabilities. The net gain or loss on repo transactions is accrued over the period to maturity. Purchases of securities under agreements of resale (“reserve 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

The cost of premises and equipment purchased before 31 December 2005 are restated for the effects of inflation in YTL current at 31 December 2005 pursuant to IAS 29. Premises and equipment purchased after this date are recorded at their historical costs. Accordingly, premises and equipment are carried at cost, less accumulated depreciation and impairment losses.

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

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

With the exception of fixed assets to be sold which have been acquired through guarantees received by the Bank for loans given, additions to premise 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial Leases – the Group as Lessee

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as finance leases. 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 a 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). When it is not possible to estimate the recoverable amount of the 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.

Corporate assets are not directly separable and independent from 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Retirement Pay Liability

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. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts are YTL 1,960.69 and YTL 1,727.15 at 31 December 2006 and 31 December 2005, respectively.

International Accounting Standard No.19 (revised) "Employee Benefits" ("IAS") 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 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. The Bank has a defined benefit and contribution plan for its employees as defined below:

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.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Pension and Post Retirement Obligations (continued)

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 as at 31 December 2006, the Fund does not have an actuarial deficit as at 31 December 2006 using a technical interest rate of 10.24%. Furthermore, the Bank management believes that the Fund is capable of meeting its liabilities to be calculated by the commission mentioned above during the transfer of the Fund without any burden to the Bank.

3.13 Equity Participations

In the accompanying financial statements, equity participations are stated at the lower of inflation adjusted acquisition cost (up until 31 December 2005) and fair value. Inflation adjusted values are computed by applying indexation as required under IAS 29 from the date of acquisition of the subsidiary.

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 30.

3.15 Taxation and Deferred Taxes

Taxes on income for the period comprise current tax and deferred taxes. Current taxes on income comprises tax payable calculated on the basis of expected taxable income for the period using the tax rates enacted by the balance sheet date and; any adjustment in taxes payable for previous years.

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 possible that taxable profit will be available against which the deductible temporary differences can be utilized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Taxation and Deferred Taxes (continued)

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.

Deferred taxes related to the fair value remeasurement of available for sale assets are charged or credited directly to equity and subsequently recognized in the income statement together with the deferred gains or losses that are realized.

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.

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 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 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 1% general provision for cash loans and other receivables and 0.2% 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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2006 AND 31 DECEMBER 2005 (Currency- Thousand New Turkish Lira unless otherwise expressed)

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 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

Cash and cash equivalents include cash balances on hand, balances with the Central Bank, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as at 31 December 2006 and 2005, included in the accompanying statement of cash flows are as follows:

	31.12.2006	31.12.2005
Liquid assets	413,089	282,613
Balances with the Central Bank	1,549,486	1,375,075
Balances with banks (excluding reserve deposits at the Central Bank)	3,160,501	2,122,253
	<u>5,123,076</u>	<u>3,779,941</u>

3.19 Offsetting

Financial assets and liabilities are not 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 Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not under the ownership of The Bank.

3.21 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)

3.22 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.

3.23 Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities 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.

3.24 Consolidation

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

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

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

3.25 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 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 2006 is 1,221,000,000 (YTL 1 each).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 Earnings per Share (continued)

The earnings attributable to shares for the year ended 31 December 2006 is as follows:

	<u>31.12.2006</u>
Net earnings attributable to ordinary shares	766,511
Weighted average number of shares in issue (YTL1 each)	1,319,142,466
Earnings per share (expressed in YTL per share)	0,581

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.

3.26 Business and Geographical Segments

Business Segments

For management purposes, the Group is currently organized 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 consolidated financial statements and accordingly, geographical segment information is not presented.

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SEGMENT INFORMATION**

STATEMENT OF INCOME

<u>Year ending 31 December 2006</u>	<u>Banking</u>	<u>Other Financial</u>	<u>Other Non- Financial (*)</u>	<u>Combined</u>	<u>Eliminations and Adjustments</u>	<u>Total</u>
Interest income	4,324,102	92,382	6,319	4,422,803	(5,675)	4,417,128
Interest expenses	(2,846,361)	(20,989)	-	(2,867,350)	5,675	(2,861,675)
Net Interest Income	<u>1,477,741</u>	<u>71,393</u>	<u>6,319</u>	<u>1,555,453</u>	<u>-</u>	<u>1,555,453</u>
Loan Loss Provisions	(161,100)	-	-	(161,100)	-	(161,100)
Net interest income after loan loss provision	<u>1,316,641</u>	<u>71,393</u>	<u>6,319</u>	<u>1,394,353</u>	<u>-</u>	<u>1,394,353</u>
Non-interest income	911,553	951,852	33,125	1,896,530	(26,670)	1,869,860
Non-interest expense	(1,287,902)	(979,186)	(35,642)	(2,302,730)	26,670	(2,276,060)
Income from associates	16,557	119	41,988	58,664	(8,891)	49,773
Income before tax	<u>956,849</u>	<u>44,178</u>	<u>45,790</u>	<u>1,046,817</u>	<u>(8,891)</u>	<u>1,037,926</u>
Taxation	(236,788)	(7,149)	-	(243,937)	-	(243,937)
Minority share	-	-	-	-	(27,478)	(27,478)
Net Income/(Loss)	<u><u>720,061</u></u>	<u><u>37,029</u></u>	<u><u>45,790</u></u>	<u><u>802,880</u></u>	<u><u>(36,369)</u></u>	<u><u>766,511</u></u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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SEGMENT INFORMATION (continued)

<u>STATEMENT OF INCOME</u>				Eliminations and	
<u>Year ending 31 December 2005</u>	<u>Banking</u>	<u>Other Financial</u>	<u>Combined</u>	<u>Adjustments</u>	<u>Total</u>
Interest income	3,793,415	-	3,793,415	(3,193)	3,790,222
Interest expenses	(2,319,222)	-	(2,319,222)	3,193	(2,316,029)
Net Interest Income	<u>1,474,193</u>	<u>-</u>	<u>1,474,193</u>	<u>-</u>	<u>1,474,193</u>
Loan Loss Provisions	(262,039)	-	(262,039)	-	(262,039)
Net interest income after loan loss provision	<u>1,212,154</u>	<u>-</u>	<u>1,212,154</u>	<u>-</u>	<u>1,212,154</u>
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	<u>934,065</u>	<u>75,603</u>	<u>1,009,668</u>	<u>(20,960)</u>	<u>988,708</u>
Taxation	(173,804)	(15,619)	(189,423)	90	(189,333)
Income before monetary loss	<u>760,261</u>	<u>59,984</u>	<u>820,245</u>	<u>(20,870)</u>	<u>799,375</u>
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)	<u><u>688,262</u></u>	<u><u>40,326</u></u>	<u><u>728,588</u></u>	<u><u>(14,585)</u></u>	<u><u>714,003</u></u>

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SEGMENT INFORMATION (continued)

<u>BALANCE SHEET</u>	<u>Banking</u>	<u>Other Financial</u>	<u>Other Non- Financial (*)</u>	<u>Combined</u>	<u>Eliminations and Adjustments</u>	<u>Total</u>
<u>At 31 December 2006</u>						
Total Assets	37,665,199	1,570,022	526,200	39,761,421	(841,383)	38,920,038
Liabilities	33,090,753	1,056,213	17,660	34,164,626	(243,593)	33,921,033
Shareholders' Equity Before Net Income	3,854,385	476,780	462,750	4,793,915	(561,421)	4,232,494
Net Income	720,061	37,029	45,790	802,880	(36,369)	766,511
Total Shareholders' Equity	4,574,446	513,809	508,540	5,596,795	(597,790)	4,999,005
Total Liabilities and Shareholders' Equity	37,665,199	1,570,022	526,200	39,761,421	(841,383)	38,920,038
<u>At 31 December 2005</u>						
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

(*) Other non- financial column comprises information related to Vakıf Enerji and Taksim Otelcilik which have been included in 'Other Financial ' column in the previous period by the previous auditors.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing the accompanying consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share- Based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received can not be specifically identified. IFRIC 8 will become mandatory for the Bank and its affiliates' 2007 financial statements, with retrospective application required. The Bank and its affiliates have not yet determined the potential effect of the interpretation.

IFRIC 9- Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's and its affiliates' 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10- Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Bank and its affiliates' 2007 financial statements, and will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the Bank and its affiliates first applied the measurement criteria of IAS 36 and IAS 39 respectively.

On 18 August 2005, the International Accounting Standards Board issued IFRS 7 'Financial Instruments: Disclosures'. The Standard supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements of IAS 32 'Financial Instruments: Disclosure and Presentation', the presentation requirements of IAS 32 remain unchanged and many of the disclosure requirements of IAS 32 have been transferred to IFRS 7. IFRS 7 is effective for annual periods beginning on or after 1 January 2007, with earlier application encouraged. The Bank preferred not to early adopt IFRS 7, before its effective date 1 January 2007.

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4. LIQUID ASSETS

	<u>31.12.2006</u>	<u>31.12.2005</u>
Cash balances-Turkish Lira	367,298	249,743
Cash balances-Foreign currency	45,179	31,833
Other	612	1,037
	<u>413,089</u>	<u>282,613</u>

5. BALANCES WITH THE CENTRAL BANK

	<u>31.12.2006</u>	<u>31.12.2005</u>
a) Balances with the Central Bank		
Demand deposits-Turkish Lira	1,253,563	1,126,000
Demand deposits-Foreign currency	295,923	249,075
	<u>1,549,486</u>	<u>1,375,075</u>
Time deposits-Foreign currency	-	-
	<u>1,549,486</u>	<u>1,375,075</u>
Income accruals	-	-
	<u>1,549,486</u>	<u>1,375,075</u>
b) Reserve deposits at the Central Bank		
Reserve Deposits- Turkish Lira	-	-
Reserve Deposits- Foreign currency	791,039	663,002
	<u>791,039</u>	<u>663,002</u>
Income accruals	32,921	24,641
	<u>823,960</u>	<u>687,643</u>

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5. BALANCES WITH THE CENTRAL BANK (continued)

Under the Turkish Central Bank regulations, Banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than interbank deposits. The prevailing rates are 6% for Turkish Lira deposits and 11% for foreign currency deposits. These reserves are not available for daily business 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.

6. BALANCES WITH BANKS

	<u>31.12.2006</u>	<u>31.12.2005</u>
DOMESTIC BANKS		
Current Accounts-Turkish Lira	33,521	25,571
Current Accounts- Foreign currency	10,088	6,191
Time Deposits- Turkish Lira	293,725	552,325
Time Deposits- Foreign currency	4,719	90,264
	<u>342,053</u>	<u>674,351</u>
FOREIGN BANKS		
Current Accounts-Turkish Lira	55	11,724
Current Accounts-Foreign Currency	127,656	78,362
Time Deposits- Turkish Lira	334,684	24,261
Time Deposits- Foreign currency	2,351,471	1,331,135
	<u>2,813,866</u>	<u>1,445,482</u>
	<u>3,155,919</u>	<u>2,119,833</u>
Income accrual on balances with banks	4,847	2,420
	<u>3,160,766</u>	<u>2,122,253</u>

As of 31 December 2006, time deposits are almost short term, maturing within one year, with interest rates ranging between 1.3%-6% per annum for foreign currency time deposits and 11.95%- 21% per annum for YTL time deposits.

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7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

	<u>31.12.2006</u>	<u>31.12.2005</u>
a) Trading Securities Portfolio		
Government bonds and treasury bills	98,099	345,631
Eurobonds	353,128	555,543
Investment participation bills	8,406	24,841
Shares	1,462	3,259
Other	2,509	1,494
	<u>463,604</u>	<u>930,768</u>
Income accruals	108,477	193,205
	<u>572,081</u>	<u>1,123,973</u>
b) Available for sale		
Government bonds and treasury bills	8,340,021	8,568,139
Eurobonds	1,310,574	1,047,622
Other	2,144	1,183
	<u>9,652,739</u>	<u>9,616,944</u>
Income accruals	537,761	684,926
	<u>10,190,500</u>	<u>10,301,870</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 traded on a stock exchange were calculated based upon the prices quoted on the Istanbul Stock Exchange. For index-linked Government bonds, fair values were calculated based on the prices quoted in the Official Gazette.

Eurobonds at 31 December 2006 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.

For the year ended 31 December 2005, Bloomberg and/or Deutsche Bank Autobahn quotations have been accepted as active market data for valuation of Turkish Treasury Eurobonds whereas for the year ended 31 December 2006, Reuters quotations have been accepted as active market data for valuation of Turkish Treasury Eurobonds.

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

	<u>31.12.2006</u>	<u>31.12.2005</u>
c) Held to maturity securities		
Government bonds and treasury bills	214,312	510,509
Other	65,499	52,523
	<u>279,811</u>	<u>563,032</u>
Income accruals	492	27,378
	<u>280,303</u>	<u>590,410</u>

As explained in Note 3.6, held to maturity securities are intended to be held till the maturity date.

Securities portfolio includes YTL 1,764,467 thousand (31.12.2005: YTL 86,414 thousand) of securities sold with agreements to repurchase ('repo') as at the balance sheet date.

YTL 2,454,116 thousand (31.12.2005: YTL 1,991,450 thousand) of the securities portfolio are blocked securities for legal requirements and kept as guarantee for Istanbul Stock Exchange transactions, Interbank Money Market transactions, liquidity guarantee and foreign currency market guarantee.

Blocked securities according to restriction type as at 31.12.2006 are as follows;

	Takasbank	TCMB Interbank	Istanbul Stock Exchange	Income Accruals	Total
Held for trading	-	-	-	-	-
Available for sale	443,564	1,553,382	220,619	141,447	2,359,012
Held to maturity	-	-	-	-	-
	<u>443,564</u>	<u>1,553,382</u>	<u>220,619</u>	<u>141,447</u>	<u>2,359,012</u>

Additionally, YTL 95,104 thousand of securities was blocked with UBS AG as guarantee for SWAP transactions via Bahrain branch.

TÜRKİYE VAKIFLAR BANKASI T.A.O.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	<u>31.12.2006</u>	<u>31.12.2005</u>
Short term loans	8,406,830	7,265,034
Medium and long term loans	10,006,389	5,104,964
Overdue loans	1,059,286	1,092,477
Less: Provision for loans	(1,059,070)	(1,092,410)
Interest and other accruals on loans	293,420	147,499
	<u>18,706,855</u>	<u>12,517,564</u>

A breakdown of loans can be given as follows:

	<u>31.12.2006</u>	<u>31.12.2005</u>
<i>Short Term Loans</i>		
Discount and purchase bills	46,231	59,753
Export loans unsecured	131,574	24,664
Secured export loans	1,110,965	1,069,596
Other unsecured loans	2,625,496	2,163,624
Other secured loans(*)	4,047,497	3,769,301
Loans given to financial sector	80,644	11,193
Loans given to foreign institutions	8,022	4,395
Rescheduled loans	194,555	91,754
Finance lease receivables	117,249	70,754
Factoring receivables	44,597	-
	<u>8,406,830</u>	<u>7,265,034</u>
<i>Medium and Long Term Loans</i>		
Unsecured loans with export obligations	134,451	142,474
Secured loans with the export obligations	731,189	811,418
Secured other inv. And operating loans	8,512,072	3,592,569
Other unsecured loans	476,723	409,460
Loans given to financial sector	-	-
Finance lease receivables	151,954	111,230
Factoring receivables	-	37,813
	<u>10,006,389</u>	<u>5,104,964</u>
	<u>18,413,219</u>	<u>12,369,998</u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Movement for loan loss provision:

Movement for loan loss provision:	<u>31.12.2006</u>	<u>31.12.2005</u>
At 1 January	1,092,410	937,115
Charge for the year	201,326	262,549
Write- offs	(41)	(42)
Provision released	(234,625)	(66,473)
Effect of indexation	-	(40,739)
At period end	<u>1,059,070</u>	<u>1,092,410</u>

Loans can be analyzed by currency as follows:

	<u>31.12.2006</u>	<u>31.12.2005</u>
Turkish Lira	12,217,154	8,337,243
US Dollars	4,213,321	2,734,207
Euro	1,947,213	1,260,948
CHF	6,575	7,538
Other currencies	28,956	30,062
	<u>18,413,219</u>	<u>12,369,998</u>

Sector	2006	2005
	<u>%</u>	<u>%</u>
Manufacturing	24	19
Construction	8	6
Trade	21	19
Retail and Consumer	41	55
Other	6	1
	<u>100</u>	<u>100</u>

The Bank extends short term loans to customer with maturities mainly of within one year. Interest rate charged for loans varied between 25% and 45% (31 December 2005 20% and 30%) for Turkish Lira loans and 7% and 12% (31 December 2005: 4 % and 7%) for foreign currency loans per annum during the year.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

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9. TRADE RECEIVABLES

	<u>31.12.2006</u>	<u>31.12.2005</u>
Receivables from insurance customers	338,699	277,557
Other trade receivables	74,400	14,234
Doubtful trade receivables	8,169	15,029
Less: Provision for doubtful receivables	<u>(6,846)</u>	<u>(13,930)</u>
	<u><u>414,422</u></u>	<u><u>292,890</u></u>

10. SUNDRY DEBTORS

	<u>31.12.2006</u>	<u>31.12.2005</u>
Receivables from personnel	186	98
Receivables for banking services	1,167	562
Receivables from sale of assets	165,889	79,277
Receivables from credit card transactions	37,630	10,202
Receivables court case expenses	19,264	18,138
Other sundry debtors	<u>23,273</u>	<u>10,292</u>
	<u><u>247,409</u></u>	<u><u>118,569</u></u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. EQUITY PARTICIPATIONS-NET**

“Available for sale assets” under IAS 39 classification:

	<u>31.12.2006</u>	<u>31.12.2005</u>
Banque Du Bosphore	-	6,366
Ortadoğu Yazılım Hizmetleri	15,133	5,602
Bankalararası Kart Merkezi A.Ş.	1,175	1,175
EGS Gayrimenkul Yatırım Ort. A.Ş.	122	122
Güney Ege Enerji İşlt. Ltd. Şti.	221,622	221,622
İMKB Takas ve Saklama Bankası A.Ş.	9,599	9,599
İzmir Enternasyonal Otelcilik A.Ş.	6,461	6,461
Kıbrıs Vakıflar Bankası Ltd.	3,375	3,375
Kredi Kayıt Bürosu A.Ş.	1,792	1,792
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	65,495	77,375
Vak-Bel İthalat A.Ş.	12,919	12,919
Vakıf Gayrimenkul Ekpertiz ve Değ. A. Ş.	866	866
Vakıf İnşaat Rotasyon A.Ş.	8,133	8,133
Vakıf Menkul Kıymet Yat. Ort. A.Ş.	3,965	3,965
Vakıf Girişim Sermayesi Yat. Ort. A.Ş. (*)	3,308	6,856
Vakıf Sistem Pazarlama A.Ş.	7,010	7,010
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	35,498	35,498
Roketsan Roket Sanayi ve Tic. A.Ş.	15,087	-
Other	338	907
	<u>411,898</u>	<u>409,643</u>
Provision for diminution in value of participations(-) (**)	<u>(54,666)</u>	<u>(54,566)</u>
	<u>357,232</u>	<u>355,077</u>

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

(**): YTL 33,067 , YTL 12,919, YTL 423 and YTL 424 of the total provision is provided for Bayek Tedavi ve Sağlık Hizmetleri A.Ş., Vak-Bel İthalat A.Ş., Vakıf İnşaat Restorasyon A.Ş. and Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. respectively.

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11. EQUITY PARTICIPATIONS- NET (continued)

In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi ("Güney Enerji") for a consideration of USD 103,500,000 (YTL 161,977 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 power generation plants which are within the scope of privatization programme. Vakıf Enerji had been unable to operate Yatağan, Yeniköy and Kemerköy Thermal Power Plants. 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. Güney Enerji has paid compensation to Vakıf Enerji according to its 45 % shareholding after deduction of taxes in the current year.

The carrying value of Vakıf Enerji in which the Bank has 65.50 % shareholding is YTL 161,427 thousand (in gross) as of 31 December 2006. However, market value of Vakıf Enerji has been determined at YTL 33,164 thousand according to due diligence report prepared in 2006. The provision of YTL 90,000 thousand for possible losses related to compensation and interest expenses have been transferred to the account of "Impairment on Subsidiaries" as of November, 2006. The Bank has set aside additional provision of YTL 49,705 thousand for impairment. As a result, the net carrying value of Vakıf Enerji is YTL 21,722 thousand as of 31 December 2006.

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12. PREMISES AND EQUIPMENT

	Land & Buildings	Vehicles, furniture & equipment and Leasehold Improvements	Other Tangibles	Intangible assets	Total
Acquisition Cost					
Opening Balance at 1 January 2006	1,341,345	453,568	16,715	22,451	1,834,079
Additions	31,249	30,533	13,474	18,502	93,758
Disposals	(185,433)	(25,528)	(3,011)	-	(213,972)
Closing Balance 31 December 2006	<u>1,187,161</u>	<u>458,573</u>	<u>27,178</u>	<u>40,953</u>	<u>1,713,865</u>
Accumulated Depreciation (-)					
Opening Balance at 1 January 2006	178,889	369,825	8,769	17,935	575,418
Charge for the year	25,576	50,134	1,012	2,104	78,826
Disposals	(23,177)	(23,254)	(2,982)	-	(49,413)
Closing Balance 31 December 2006	<u>181,288</u>	<u>396,705</u>	<u>6,799</u>	<u>20,039</u>	<u>604,831</u>
Net Book Values at 31 December 2006	<u>1,005,873</u>	<u>61,868</u>	<u>20,379</u>	<u>20,914</u>	<u>1,109,034</u>

TÜRKİYE VAKIFLAR BANKASI T.A.O.

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12. PREMISES AND EQUIPMENT (continued)

	Land & Buildings	Vehicles, furniture & equipment and Leasehold Improvements	Other Tangibles	Intangible assets	Total
Acquisition Cost					
Opening Balance at 1 January 2005	1,436,935	400,405	29,180	25,193	1,892,713
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	<u>1,341,345</u>	<u>453,568</u>	<u>16,715</u>	<u>22,451</u>	<u>1,834,079</u>
Accumulated Depreciation (-)					
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	<u>178,889</u>	<u>369,825</u>	<u>8,769</u>	<u>17,935</u>	<u>575,418</u>
Net Book Values at 31 December 2005	<u>1,162,456</u>	<u>83,743</u>	<u>7,946</u>	<u>4,516</u>	<u>1,258,661</u>

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13. OTHER ASSETS

	<u>31.12.2006</u>	<u>31.12.2005</u>
Deferred acquisition cost	37,074	33,396
Prepaid expenses	57,514	36,246
Prepaid taxes	1,520	195,378
Investment properties	62,163	22,629
Inventories	9,911	2,135
Other	54,704	34,565
	<u>222.886</u>	<u>324,349</u>

14. DEPOSITS

	<u>31.12.2006</u>	<u>31.12.2005</u>
Savings and certificates of deposit	5,937,273	3,670,561
Public, commercial and other deposits	10,975,359	12,208,939
Interbank deposits	593,465	623,027
Foreign currency deposits	7,313,003	6,641,204
	<u>24,819,100</u>	<u>23,143,731</u>
Expense accruals on deposits	248,768	218,226
	<u>25,067,868</u>	<u>23,361,957</u>

The time deposits have maturity periods of less than one year. The Bank has applied interest rates to Turkish Lira time deposits based upon maturity as follows: one month 16%, three months 16%, six months 16.50% and one year 17% (2005: one month 13%, three months 14%, six months 18% and one year 15%). Average interest rate applied for foreign currency time deposits is 2.25% and 3.50% for both US dollars and Euro (2005: 2.06% and 3.04 % for US dollars and 2.17 and 3.19 % for Euro).

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15. BORROWINGS

	<u>31.12.2006</u>	<u>31.12.2005</u>
Borrowings from domestic banks and institutions	412,423	381,434
Borrowings from overseas banks and institutions	4,938,028	3,409,449
Subordinated loans	-	-
Interest and other expense accruals	<u>35,276</u>	<u>21,591</u>
	<u>5,385,727</u>	<u>3,812,474</u>

The Bank has obtained a financing of 915 million USD with respect to securitization programme under the arrangement of Standard Chartered Bank and West LB AG. The Bank has transferred its diversified payment rights to VB DPR Finance Company in accordance with the securitization programme. As of 31 December 2006, the unpaid portion of bonds issued by VB DPR Finance in 5 tranches amounted to 915 million USD.

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

	<u>31.12.2006</u>	<u>31.12.2005</u>
Within one year	2,477,268	2,185,596
1-2 years	337,594	52,886
2-3 years	306,839	3,869
3-4 years	39,692	1,632
Over four years	2,190,177	1,568,491
Interest accruals (*)	<u>34,157</u>	<u>-</u>
	<u>5,385,727</u>	<u>3,812,474</u>

(*)Interest expense accruals of the Bank as of 31 December 2006 are presented separately since they could not be distributed on basis of maturity of the related borrowings.

16. FUNDS

According to an agreement between the Mass Housing Administration ("MHA") and the Bank, the Bank is obliged to act as 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.

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17. TRADE PAYABLES

	<u>31.12.2006</u>	<u>31.12.2005</u>
Trade payables	13,870	101,942
Payables to insurance companies	234,211	25,689
Other trade payables	17,424	17,292
	<u>265,505</u>	<u>144,923</u>

18. SUNDRY CREDITORS

	<u>31.12.2006</u>	<u>31.12.2005</u>
Cash guarantees	3,584	11,535
Reserved cash	46,894	53
Payables to funds	19,980	3,158
Advances received	4,356	2,656
Dividend payables	41	16
Credit card payments	244,373	195,852
Other	8,121	62,530
	<u>327,349</u>	<u>275,800</u>

19. TAXATION

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying the accounting income for certain exclusions and allowances for tax purposes for the year 2006. Tax rate was 30% for the year 2005. In accordance with Article No. 32 of the new Corporate Tax Law No. 5520 published in the Official Gazette No. 26205 dated 21 June 2006, corporate tax rate is reduced to 20% from 30%. Accordingly, effective from 1 January 2006, statutory income is subject to corporate tax at 20%. Excess of corporate taxes paid in advance based on the tax base calculated on the quarterly earnings of the companies at the rate of 30% subsequent to periods beginning after 1 January 2006, will be deducted from corporate taxes paid in advance for the subsequent periods based on the new rate.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate is 20% effective from 1 January 2006 (31 December 2005: 30%).

According to the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses can not be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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19. TAXATION (continued)

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. According to the amendments in the tax legislations, which became effective from 24 April 2003, dividends that are paid to the shareholders from the profits of the years between 1999 and 2002 are exempt from withholding tax., if such profits are exempted from corporation tax bases of the companies. As per the decision no. 2006/10731 of the Council of Ministers published in the Official Gazette no. 26237 dated 23 July 2006, certain duty rates included in the articles no. 15 and 30 of the new Corporate Tax Law no. 5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased to 15% from 10%. In applying the withholding tax rates on dividend payments to the non resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

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.

a) Balance sheet: Taxes and dues payable

	<u>31.12.2006</u>	<u>31.12.2005</u>
Corporation tax, withholding tax and funds	89,213	262,945
Deferred tax liability/(assets)-net	(42,561)	(102,215)
Other taxes and dues	71,528	41,637
	<u>118,180</u>	<u>202,367</u>

b) Statement of income: Taxes

	<u>31.12.2006</u>	<u>31.12.2005</u>
Corporation tax, withholding tax and funds	184,283	273,057
Charge / (benefit) for deferred tax	59,654	(83,724)
	<u>243,937</u>	<u>189,333</u>

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19. TAXATION (continued)**

The major cumulative temporary differences are as follows:

	<u>31.12.2006</u>	<u>31.12.2005</u>
Fixed assets indexation difference and revaluation surplus	(113.704)	(137,218)
Retirement pay provision	(110.761)	(76,259)
Other temporary differences (total)	45.800	(107,542)
NET CUMULATIVE TEMPORARY DIFFERENCES	(178.665)	(321,019)
	<u> </u>	<u> </u>
Movement of Deferred Tax (Assets)/Liabilities:		
Opening balance	(102,215)	(99,993)
Deferred tax benefit	59,654	(2,222)
Closing balance	(42,561)	(102,215)
	<u> </u>	<u> </u>

20. PROVISIONS

	<u>31.12.2006</u>	<u>31.12.2005</u>
PROVISION FOR RETIREMENT PAY		
At 1 January	94,709	87,426
Provision and release for the period (net)	25,199	11,083
Monetary loss	-	(3,800)
At period end	119,908	94,709
	<u> </u>	<u> </u>
GENERAL LOAN PROVISION		
At 1 January	87,062	64,571
Provision and release for the period (net)	43,401	25,298
Monetary loss	-	(2,807)
At period end	130,463	87,062
	<u> </u>	<u> </u>
PROVISION FOR NON-CASH LOANS	98,860	119,886
INSURANCE COMPANIES' TECHNICAL PROVISIONS	465,444	446,459
OTHER PROVISIONS (*)	124,987	129,584
TOTAL PROVISIONS	939,662	877,700
	<u> </u>	<u> </u>

(*) As of 31 December 2006, other provisions include YTL 51,000 thousand of dividend payable to employees from profit for the year 2006 as per the main article of the Bank.

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As at 31 December 2006	Up to 1 Month (*)	1 to 3 Months	3 to 12 Months	Greater than 1 year	Total
ASSETS					
Liquid assets	413,089	-	-	-	413,089
Banks (including Central Bank)	4,707,194	2,793	265	-	4,710,252
Interbank funds sold (including reverse repurchases)	872,015	-	-	-	872,015
Securities portfolio	751,248	371,623	3,433,121	6,486,892	11,042,884
Loans	3,166,014	1,113,265	3,754,244	10,673,332	18,706,855
LIABILITIES					
Deposits	8,389,132	13,292,032	2,581,330	805,374	25,067,868
Securities sold under repo agreements	280,142	255,968	688,185	263,953	1,488,248
Bank borrowings	239,545	230,387	2,024,171	2,891,624	5,385,727
Funds	-	-	139,922	-	139,922

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

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As at 31 December 2005	Up to 1 Month (*)	1 to 3 Months	3 to 12 Months	More than 1 year	(*) Total
ASSETS					
Liquid assets	282,613	-	-	-	282,613
Banks (including Central Bank)	3,448,642	3,653	1,320	43,713	3,497,328
Interbank funds sold (including reverse repurchases)	2,649,955	-	-	-	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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22. 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	%	<u>31.12.2006</u>	%	<u>31.12.2005</u>
Vakıflar Genel Müdürlüğü (A Class)	43.00	1,075,059	43.00	550,000
Vakıflar Genel Müdürlüğü (B Class)	15.45	386,224	15.45	197,592
Mazbut ve Mülhak Vakıflar (B Class)	0.19	4,706	0.19	2,408
Vakıfbank Employee Pension Fund (C Class)	16.10	402,553	16.10	205,946
Individuals and Legal Entities (C Class)	0.08	2,060	0.08	1,054
Other	25.18	<u>629,398</u>	25.18	<u>322,000</u>
Paid capital per statutory records		<u>2,500,000</u>		<u>1,279,000</u>
Indexation effect		<u>800,146</u>		<u>1,413,703</u>
Indexed Share Capital		<u>3,300,146</u>		<u>2,692,703</u>

The paid-in capital of the Bank has been increased to YTL 2,500,000 thousands by YTL 1,221,000 thousand from YTL 1,279,000 thousand as of 19 December 2006. YTL 7,795 thousands of the total increase was provided from revaluation fund, YTL 154,500 thousands from extraordinary reserves, YTL 605,763 thousands from other capital reserves, YTL 4,737 thousands from other profit reserves and YTL 448,205 thousands from share premiums.

23. 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.

	<u>31.12.2006</u>	<u>31.12.2005</u>
Paid in capital	366,365	346,571
Revaluation fund	6,252	5,362
Retained Earnings	<u>(23,659)</u>	<u>(28,321)</u>
	<u>348,958</u>	<u>323,612</u>

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(Currency- Thousand New Turkish Lira unless otherwise expressed)****24. INTEREST INCOME**

	<u>31.12.2006</u>	<u>31.12.2005</u>
Interest on loans	2,508,768	1,910,412
Interest on securities portfolio	1,381,853	1,478,060
Interest on deposits at banks	128,372	57,339
Interest on interbank funds sold	260,856	252,594
Interest on reserve requirement	124,223	91,273
Other interest income	13,056	544
	<u>4,417,128</u>	<u>3,790,222</u>

25. INTEREST EXPENSE

	<u>31.12.2006</u>	<u>31.12.2005</u>
Interest expense on deposits	2,569,692	2,167,751
Interest expense on interbank funds borrowed	61,753	26,993
Interest expense on borrowings	223,036	118,410
Other interest expense	7,194	2,875
	<u>2,861,675</u>	<u>2,316,029</u>

26. NON-INTEREST INCOME

	<u>31.12.2006</u>	<u>31.12.2005</u>
Banking services income	406,687	459,604
Income from capital market transactions- net	48,378	246,633
Foreign exchange gains-net	-	48,349
Reversal of unnecessary provision	310,384	75,753
Fixed assets sales revenue	10,607	9,566
Rent income	7,049	2,808
Insurance technical income	905,925	1,004,296
Leasing technical income	24,215	33,011
Other (*)	156,615	65,773
	<u>1,869,860</u>	<u>1,945,793</u>

(*) Major component is fees charged for miscellaneous banking activities.

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	<u>31.12.2006</u>	<u>31.12.2005</u>
Foreign exchange losses, net	5,103	-
Commissions and fees paid	120,795	99,250
Other provisions	150,931	204,086
Personnel expenses	461,890	362,441
Taxes and dues	33,251	31,444
Depreciation expenses	70,918	120,640
Retirement pay provision	15,581	11,083
Insurance technical expense	900,334	1,035,353
Leasing technical expense	-	14,057
Other expenses	517,257	299,813
	<u>2,276,060</u>	<u>2,178,167</u>

28. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	<u>31.12.2006</u>	<u>31.12.2005</u>
Letters of Guarantee		
- in New Turkish Lira	1,847,274	1,668,791
- in Foreign Currency	1,553,605	1,400,943
Letters of Credit	1,227,088	1,275,742
Acceptance Loans	152,842	303,673
Other Commitments	3,485,331	2,872,345
	<u>8,266,140</u>	<u>7,521,494</u>

29. FOREIGN CURRENCY POSITION

	<u>31.12.2006</u>	<u>31.12.2005</u>
Total foreign currency assets	14,504,637	11,258,099
Total foreign currency liabilities	(14,754,931)	(11,123,293)
Net foreign currency position	<u>(250,294)</u>	<u>134,806</u>

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30. RELATED PARTY TRANSACTIONS

a) Deposits and Commitments to Repurchase Securities

Vakıfbank Employee Pension Fund has deposits amounting to YTL 850 thousand and securities amounting to YTL 363,321 thousand held within the Bank as at 31 December 2006.

Vakıfbank Employee Pension Fund has deposits amounting to YTL 400,100 thousand and securities amounting to YTL 614,374 thousand 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 2006 is YTL 17,109 thousand and YTL 11,115 thousand respectively.

b) Compensation of Key Management Personnel

The remuneration of directors and other members of keys management during the year amounted to YTL 4,337 thousand for year ended 31 December 2006.

31. SUBSEQUENT EVENTS

- a) The Bank sold its 9 % shareholding (with book value of YTL 751) in Ortadoğu Yazılım Hizmetleri A.Ş in cash for 690,000 USD to Ahmet Serdar Oğhan Joint Venture on 16 April 2007 based on Board of Directors decision dated 26 January 2007 number 75471.
- b) Güneş Sigorta A.Ş, in which the Bank holds 36.35% ownership, decided to increase its share capital from YTL 75,000 to YTL 150,000 in its Board of Directors meeting dated 16 April 2007.

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