



## TRANSFORMATION AND RESTRUCTURING PROJECT

The compelling competitive environment experienced in the sector and the shrinkage in the profit margins have necessitated the transition into a customer- and sales-oriented, competitive and dynamic structure for increasing efficiency and productivity. With this understanding, our Bank has initiated a Transformation and Restructuring Project with the cooperation of an international consultancy company in February 2005 in order to create a Vakıfbank model that has met the modern banking requirements and established its development and progress on sustainable foundations.

In order to achieve the purposes mentioned above, a new customer- and sales-oriented service model has been developed in order to increase productivity through the establishment of a branch network capable of offering the best services to the customer portfolio of our Bank and to offer the products included within the product range of the Bank for utilization by the customers in a more active and efficient manner.

The centralisation of some specific works for decreasing the work burden of the branches within the scope of the project and allocating more time and work power for marketing and the encouragement of alternative distribution channels have been determined as the primary development opportunities of top priority. By these methods, it is targeted to increase the service quality and speed and to decrease the costs.

A performance system based on measurement and reporting, targeting and encouraging for the purpose of monitoring of all of these changes numerically was put into implementation. With this system, the performance of the personnel oriented on the basis of the bank's targets are monitored, the results are notified to them and they are encouraged to create their own development plans and the employees are rewarded on the basis of targets and the success by performance.



This model has been put into application in the branches of our big cities, particularly in Istanbul, Ankara and Izmir. It is targeted to spread this structure to at least half of our branches in 2006. The sales- and customer-oriented organisational structuring has also been performed within the structure of the General Directorate and Regional Directorates.

The training programs for enabling the employees to understand and embrace the project are being continued on an intensive basis.

Another part of the project is the human resources study. Our Bank is aware of the fact that the human resources is the fundamental element in achieving success in the transformation and restructuring project of our Bank and in reaching to our targets in future. Within the scope of this study, the activities are carried out in a coordinated manner mainly in three fields oriented towards improving employment and training processes, making the performance assessment systems more objective and performing career planning on the basis of performance evaluations.

The reengineering and restructuring project has increased the efficiency and productivity, strengthened its corporate structure through structural transformation and it will provide the strength and power required by the Bank in its way to become a Bank offering to its customers modern banking applications and products at the highest level and carry its position to the highest ranks in the sector.

## COMMERCIAL BANKING

### Commercial Loans

As per our loan policy set for the year 2005, the targets determined for 2005 have been achieved as a result of the studies carried out taking into consideration the trend of falling interest rates and the amendments in the Banking legislation.

New credit products have been put into application with the purpose of increasing the share of our Bank in the market, expanding our customer portfolio and distributing the risk in a diversified manner in 2005.

New applications have been developed with the purpose of increasing the service quality offered to all of the sectors and particularly to exporting companies and the Small and Medium Sized enterprises.

New arrangements have been made in order to accelerate the crediting process and to increase the service quality, and particularly to offer rapid and efficient services in the guarantee stage. To this effect, a protocol was signed with Vakıf Gayrimenkul Ekspertiz Değerleme A.Ş. and the expert survey process has been shortened. Furthermore, mortgage teams were formed within the scope of the structuring activities of our Bank in order to perform mortgage imposition works and the crediting process was accelerated.

Applications were initiated in order to increase our financing support oriented towards the agricultural sector. To this effect, a protocol was signed with Toprak Mahsulleri Ofisi (Soil Products Office) and financing opportunity under suitable conditions has been provided for our farmers providing products to TMO.

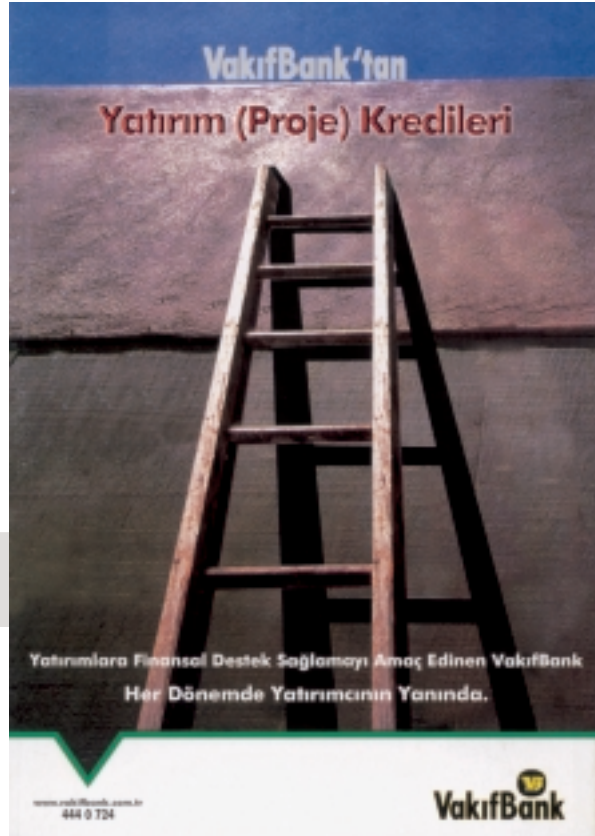
Risk-based crediting policies were developed taking into consideration Basel II criteria. To this effect, pricing in parallel to the credit risk degrees of the companies has been applied in the credit evaluation and pricing stages and different interest rates are being determined for their different credit risk degrees.

### Project Finance

In the year of 2005, our Bank offered to its investors and upon request, provided them with loans such as Loans Sourced by our Bank, EIB SME Loans and EIB Loans for the Prevention of Industrial Pollution, European Council Development Bank Loan, and the Foreign Bank Sourced Loans such as Union Bank Of Switzerland (UBS AG), Dresdner Bank, Credit Suisse, Banco Bilbao Vizcaya Argentaria, Commerzbank, Deutschebank, Bank Brussels Lambert S. A. (BBL), Bayerische Landesbank, etc.

Vakıfbank participated at various quantities in syndication loans arranged under the leadership of various foreign banks and/or our Bank for significant public tenders and privatisations based on projects (investments subject to significant public tenders and privatisations such as dam, highway, railway, energy, airport, etc.). In addition to the existing syndication loans, Vakıfbank has signed 7 syndication loan agreements in 2005 and has participated in the syndications of US 3.4 billion dollars and EUR 138 million in total with its participating amount of US 644.7 million dollars and EUR 65.2 million.

Cash loans with the amount of US 912.1 million dollars have been allocated for 97 companies in the year of 2005; and the total of cash and non-cash project loans extended by the date of 30.12.2005 has been YTL 2.3 billion.





## SME Loans (Small and Medium Sized Enterprises)

Within the framework of the General Loan Policy that we have followed in 2005, the required attention and importance was attached to crediting of Small and Medium Sized enterprises (SMEs) and their shares in our total loan portfolio have been increased. Financial support has been provided for the companies operating particularly in the production industry and the other sectors; new products and services have been developed; and the loans have been extended in a balanced manner in respect of both the sectors and the geographical regions.

Our Bank has supported the real sector and assumed a structure creating products and services in order to meet their requirements and offering its products that it develops in an efficient manner with its loan portfolio mainly composed of SME enterprises.

The downward movement of the loan interest rates has increased the demand for commercial loans on instalments within 2005; and there has been a rapid increase experienced in the utilization of commercial loans on instalments.

The loans made available to SMEs have been further diversified; and SME Product Catalogue has been created;

- For the enterprises operating in the fields of production, trade and service sectors;
- The companies that are members of chambers of tradesmen and craftsmen;
- The companies engaged in urban public transportation (shared taxi, taxi, public bus, service bus transportation);
- The farmers engaged in modern agriculture;
- The transportation agencies issued with highway permit certificate;
- The self-employed persons that are members of a chamber of profession (dentists, doctors, pharmacists, veterinary doctors, advocates, etc.);

and the companies operating in the tourism sector

- The following Loan Packages stated below have been created in which they can find special loan instruments meeting their own requirements:
- Servicer SME Support Package,
- Manufacturer SME Support Package,
- Transportation Sector SME Support Package,
- Urban Public Transportation Commercial Licence Plate/Line Owners Support Package,
- Tradesmen and Craftsmen Support Package,
- Traditional Tourism Support Package,
- Health Sector SME Support Package,

In the related Loan Packages, of the products specified below oriented towards our credit customers, only those that are suitable to their own sectors are included. These products are:

- Loan for Enterprise Needs,
- Raw Material Procurement Loan,
- Loan for the Purchase of Business Plants,
- VAKOBI Investment Loan,
- 0 Km. Vehicle and Second Hand Vehicle Loan, Car Fleet Loan, Light Commercial Vehicle Loan,
- Franchising Loan,
- Tradesmen Support Loan,
- Licence Plate operation and Licence Plate Vehicle Loan,
- Tractor Loan,
- Organic Agriculture/Greenhouse Loan
- Tourism Support Loan
- Loan for Doctor/Physician Enterprise Needs and Loan for Pharmacist Enterprise Needs,
- Certificate Loan, Loan for Carrier Needs

In 2005, "Certificate Loan" has been made available for receiving highway permit certificates required to be taken

from the Ministry of Transportation by the enterprises engaged in road transportation, forwarding agency and public transport works, and shipment storage and freight forwarding works and "Loan for Carrier Needs" has been extended for meeting the other financial needs of these customers; thus, the loans developed under special conditions were made available for the road transportation sector.

Furthermore, it has been continued to extend loans with the cooperation of VAKIFBANK-KOSGEB in order to meet the financing needs of the companies qualified as SME as supported by the Small and Medium Industry Development Organisation (KOSGEB) throughout the year of 2005. Another project has been added to two projects carried out within this scope in 2005.

- TL Enterprise Loans with Producer Price Index + 5% were also made available with the upper limit of 100.000 Dollars extended to SME enterprises from the source transferred by KOSGEB to our Bank; and the project was finalized by the date of 31.12.2005. The total of loans extended to 1.053 companies within the scope of this project amounted to YTL 99.1 million.

- In order to encourage export by SMEs and to support investments in this field, Export Loan with "Zero" interest having an upper limit of 100.000 Dollars was made available to SMEs the interest of which was to be paid by KOSGEB; and the total amount of loans extended to 1160 companies within the scope of this project amounted to 108.5 million USD.

- In order to encourage the employment of registered labour and personnel by SMEs, Employment Support Credit with zero interest having an upper limit of 100 thousand YTL has been made available for the new employees to be employed by SMEs via İŞKUR for which they are obliged to submit SSK (Social Security Institution) Declarations. The employment of 5000 people was targeted with the extension of the aforesaid loan.

Within the scope of "B2B" (enterprise to enterprise) practices implemented, access by means of Internet, POS, etc. was given to the branches and subsidiaries of the corporations such as Milli Piyango A.Ş., Petlas Lastik Sanayi ve Tic. A.Ş., Çay-Kur, etc.; and thus, the banking transactions were accelerated.

## RETAIL BANKING

### Consumer Loans

There has been a rapid increase in the demand and extension of Consumer Loans experienced in parallel with the downward movement of the loan interest rates in 2005. In order to support the loan placement, new loan types such as those mentioned below were put into application:

- Holiday Loan
- New Year Loan
- Mother's Day Loan
- Education Loan
- Interest Loan
- Marriage Loan.

As per the protocol signed with the Ministry of National Education (MEB) on 21.12.2004, a computer campaign was organised for the employees of MEB and accordingly, 83.293 units of computers were sold.

Furthermore, the volume of loans were expanded various protocols concluded for extension of loans on reduced interest rates with various public entities and corporations. Agreements were made and campaigns were organized with the leading companies in the automotive sector.

In parallel to the developments in the consumer loans, the market targets were achieved in relation with the consumer loans by the end of 2005.





## Credit Cards

The number of the credit cards of the bank increased by 156.752 and reached to 1.980.823; while the number of POS machines increased by 22.314 and reached to 82.083; similarly, the number of member businesses having an instalment payment agreement increased by 18.692 and reached to 58.229; and the credit card placements increased by 18% and reached to YTL 407 million.

In 2005, communication with the credit card holders was established via SMS messages. With this application developed, the information such as debt data, campaign information, etc. and the other information are sent to the cellular phones of our credit card holders.

On-line credit card collection system via Postal Services that was put into application in the second half of the year 2004 was established on a sound basis; and significant number of card holders have started to get the benefit of this service as a result of the information presented to the credit card holders in relation with this application; thus, additional customer satisfaction has been ensured.

The field service offered to the member businesses using our POS devices located in big cities have been outsourced in 2005. With the start of the provision of these services by specialized companies, the service quality offered to the member businesses and the customer satisfaction has been increased. The Mobile Point of Sale (Mobile POS) application put into application in 2004 has been implemented nationwide; and numerous member corporations have used the Mobile POS machines of our Bank. Joint POS studies have been stated offering cost advantage to the banks; and it is planned to adopt a joint POS Application in cooperation with the leading banks of the sector in 2006.

Certifications have been received in relation with the project of transformation of our credit card system into EMV (credit cards with chips, POS machines capable of reading these cards and ATMs); and POS machines will be made compatible with EMV in the first quarter of the year 2006.

The operational test stage of chip credit cards is being continued; and the chip cards will be sent to all of the credit card holders after the completion of the tests in the first quarter of 2006

## Corporate Payroll Services

By December 2005, the corporate payroll payments of our Bank has increased by 5.08% compared to the end of 2004 and it has been realized as 849.222 people. While the total number of people including the pensioners for which payroll payments were made was 1.871.889; this figure has reached to 1.907.300 in 2005. The individuals to which salary payments were made have been reached and cross marketing activities have been performed; the crediting rate achieved as a result of these efforts was 81%. The existing salary payment protocols were renewed with 654 corporations in total and new protocols were signed with 389 new enterprises in 2005.

## ALTERNATIVE DISTRIBUTION CHANNELS

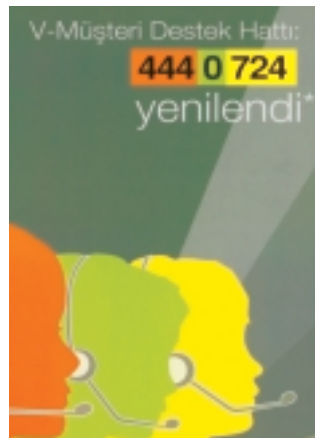
Our Bank has been keeping up with the developing technologies concurrently and increasing the types of its services day by day. The services called as Alternative Distribution Channels enable the customers to save time since they give the opportunity to perform transactions without visiting any branch and they are the services of our Bank that creates less loss in respect of banking expenses. The number of alternative distribution channels customers that was 654.564 by the end of 2004 increased by 9.75% and reached to 718.223 by the end of 2005.

### Internet Banking

751.805 customers in total including 737.777 retail and 14.028 corporate customers have used our Internet-724 branch that was put into service in 2000.

### Call Centre

While our Call Center could only be called directly from 15 cities in the previous years, now it can be called directly from all cities via the phone number of 444 0 724 since the first half of 2005. In total, 1.866.723 calls of the customers were answered by our Call Center by the end of 2005.



## WAP Banking

91.337 transactions have been performed with WAP (GPRS) 7-24 service provided to our customers using cellular phones and the total amount of these transactions have reached to 470.551 YTL

## Collection 724 Branch

28.183 transactions amounting to 39.6 million YTL have been performed via the Collection-724 branch that offer invoice payment services via internet to our customers holding a bankomat account card that are not internet branch customers.

## ATM

The number of ATMs that was 1784 by the end of 2004 was increased to 1.820 by 31.12.2005 in order to meet the increasing demands and to spread them out nationwide. The field of common use with ATM machines of ALTIN NOKTA (GOLDEN POINT) banks (Garanti, Akbank, Koçbank and Fortis) and Ziraat Bank has been expanded. Our Bank has also changed the concept of ATM cabins in 2005 and in addition to wall-type ATM cabins newly designed, it has increased its ATM cabin variety with the small-sized, safe and glass-enclosed cabins enabling the use of lobby-type ATM devices at any point and put them into service at 763 points.



The ATM machines of our Bank are equipped with services oriented towards meeting the customers' needs in a complete manner. As the latest innovations presented in ATM devices, the transactions such as Hızır-724 option through which our customers receiving their salaries via our Bank can open credits on their owns, foreign currency exchange transactions, payment of bills, opening of time foreign currency deposit account, withdrawing in USD and EURO from 54 units of ATMs, etc. are presented to the disposal of our customers.

## Bankomat-724 Cards

The number of Bankomat-724 customers that was 9.220.840 by the end of 2004 has reached to 10.379.551 by the end of 2005. 1.253.782 units of Bankomat-724 accounts are debit cards; and the total of placement extended has amounted to 491.2 million YTL by the end of 2005. 13% of these placements have been extended to commercial customers and 87% of them have been presented to personal customers.

## Utility Payments

The number of bills registered under the regular payment system has increased by 111.604 compared to the previous year and reached to 1.997.805. The number of customers using this system is 814.141 people.



## FUND MANAGEMENT – TREASURY OPERATIONS

In 2005, our Bank has maintained its raising position in the primary and secondary markets as a result of its strengthened capital structure and the efficient and successful fund management by its treasury unit. It has continued to develop and update the techniques implemented in the treasury transactions by the year of 2005. The Bank has ensured efficiency and profitability in treasury transactions through meticulous analysis of market opportunities and risks.

Our Bank that is one of the 12 market-maker banks is an important market player in both the government debt securities and Eurobond securities issued by the Turkish Treasury. Having been one of the leader banks in ISE (Istanbul Stock Exchange) Bond Market since many years, our Bank has remained as the leader in the listing of banks by volume of transactions in ISE Bond Market according to ISE data by the end of 2005.

The volume of transactions handled by our Bank in Eurobond and Foreign Exchange Bond has reached to US 2.6 billion dollars in 2005. Our Bank is continuing its operations under the responsibility of its position as the bank taken as a reference by various foreign and domestic banks in Eurobond and Foreign Exchange Bond transactions issued by the Turkish Treasury.

Compared to the previous year, The Bank has realized an increase by 32% in the Treasury Bills and Government Bonds Portfolio; and an increase by 13% in FX Eurobond and Foreign Exchange Bond Portfolio; and an increase by 24.62% in all of the Stocks and Securities Portfolio.

Being among 14 banks quoted in TRLIBOR market, our Bank has increased its volume of transactions by 231.50% compared to the previous year through funding the related markets including Interbank. The volume of reverse repurchase transactions has increased by 530% compared to the previous year and reached to YTL 19.5 Billion.

Vakıfbank has been continuing its services by means of 398 units of foreign and 39 units of domestic correspondent banks.

## INVESTMENT BANKING

The customers of our Bank enjoy various investment banking services such as share certificates, treasury bills, mutual funds, purchase and sale of gold, transactions at Istanbul Gold Exchange, repurchase transactions, etc.; and furthermore, upon their request, the Bank customers are provided with research and information services. On the other hand, the capital increase, dividend payments and company market price evaluations of the companies and enterprises are performed.

### Mutual Funds

Our Bank has been one of the institutions that established the first mutual fund in our country and it has a wide expertise in risk and portfolio managements in mutual funds. Our Bank has 4 units of Type A, and 6 units of Type B mutual funds. The purchase and sale of our mutual funds is possible via the entire branch network and the alternative distribution channels such as Internet, telephone banking, ATMs, etc. without any limitation of quantity.

### Futures Exchange

Our Bank has received an Operation Licence for Intermediation in Trading of Derivative Products dated 05.05.2005 and numbered BNK/TAASA/78 and thus, it has been entitled with the authority to perform transactions in Futures and Option Exchange. The activities of our Bank in the Futures Market are expected to grow depending on the growth of the market

## INTERNATIONAL BANKING – FOREIGN OPERATIONS

In 2005, efforts have also been concentrated on increasing the share of the Bank gained from export and import transactions. The export volume of transactions of our Bank has increased by 32.61 % compared to the last year and our Bank has intermediated 7.17% of the total foreign trade of Turkey.

In July, the Bank borrowed a syndicated loan facility of US 750 million dollars with the participation of 63 international banks. The syndicated loan with the amount of US 500 million dollars received in December is considered among the loans with the lowest margins that have been borrowed so far by Turkish Banks. The securitisation loan of US750 million dollars borrowed under the co-leadership

of two international banks in June 2005 has been accepted as the long-term underwritten debt with the highest amount that has been received so far. With this securitisation credit, Our Bank has capitalized the export inflows that it has intermediated and provided foreign resources with the average maturity period of 5.3 years and final term of 7.3. The securitisation of the said export inflows was rated at investment grade by the international rating agencies. As a result of this rating, the securitisation-borrowing program could be turned into bonds and sold to international investors.

Upon public offering, the international corporate investors and investment banks have begun to monitor the activities of our Bank more closely. Most of these institutions indicate the importance of our Bank's potential in retail banking, SME banking and commercial banking; and describe our Bank as the shining star of Turkish banking sector.

## INFORMATION TECHNOLOGIES

In the year of 2005, our Bank continued to improve its advanced banking techniques and products to reduce costs and increase incomes by providing a more reliable, rapid and modern services to its customers. Such activities have been carried out under the titles of "Application Development Projects", "Banking Support and Analysis Studies", "Communication and Hardware Projects", and "Central Computer System Projects".

### **a) Within the scope of Application Development Projects;**

- A communication network monitoring and evaluation system enabling centralized monitoring our Bank's communication network totally renewed in 2004 and equipped with TCP/IP technology has been commissioned.
- The Branch systems modernisation works initiated in 2004 have been nearly completed; within the scope of these works, the portfolios and the other printers, personal computer systems used in our branch offices and the asset and liability devices used in local communication network have been renewed.
- With the projects carried out within the scope of IBAN adaptation declared in 2005, the EFT and SWIFT systems of our Bank have been completed with IBAN support and the account inventory arrangements compatible with IBAN have been made.
- An outbound call centre was established enabling our customers holding their credit products in our Bank to follow there delayed payments; and thus, retail customer monitoring activities were managed in a centralized manner.
- Central system monitoring project was developed and the transfer of the screening inventory of the entire commercial / retail loan products of our Bank into the centralized system was completed.
- The project enabling monitoring of the customer risks and limits covering all of the credit units within the

structure of a central scoring system was put into implementation.

- It is planned that the required infrastructure would be established for adaptation of the credit cards of our banks for being compatible with EMV in the first quarter of 2006.

### **b) Within the scope of the Central Computer System Projects:**

The works oriented towards updating, developing and routine performance improvement of the operating system softwares used in the central system were performed.

### **c) Within the scope of the Communication and Hardware Projects:**

The computers to be used in Marketing and Sales-Operation oriented application were installed in 129 Branch offices.

## PLANNING / ORGANISATION

In 2005, the policies to ensure the highest efficiency have been determined in accordance with the overall economic and sectoral expectations and the financial structure of our Bank has been monitored on a monthly basis according to the targets determined within the framework of such policies. Furthermore, the current position of our Bank in the sector has been monitored at quarterly intervals.

Targets have been determined for our branches within the framework of the Annual Work Plan and Development Projection arranged in 2005 as in 2004; and the activities of our branches, their customer numbers, volumes of transactions and the related performances have been monitored and evaluated on a monthly basis.

Concentration of our Bank's branches in a provincial basis was evaluated in comparison with the concentration of the other banks' branches and examinations were performed about the locations where branches are to be opened within the framework of the growth policy of our Bank; after the performance of the required feasibility analysis;

-Ankara Etimesgut,

-Yenisanayi/Kayseri,

-Esenyurt/Istanbul,

-Bayramyeri/Denizli,

-Çekmeköy/Şile yolu,

-Sanayi Mahallesi/Istanbul,

-Sultançiftliği/Istanbul branches were opened in 2005; and

-Izmir/Adliye, and

-Gatem/G.Antep offices were converted into branches; thus, the total number of our branches has reached to 302.

Within the scope of restructuring activities of our Bank, the following departments reporting to the General Directorate were opened:

-Commercial/Corporate Banking Department was opened in order to assume the responsibilities related with product



development, marketing and strategy oriented towards commercial customers and SMEs and to support the Commercial Portfolio Managers in the branches and to control their performances;

- Treasury and Foreign Operations Department was opened in order to manage the central treasury offices and cash transfers as well as the fund transactions and operations such as EFT, cheques, barter, etc. and to assume responsibilities about the foreign trade operations;

- Retail Banking Department was opened to develop marketing-sales strategies and products oriented towards the retail consumers and groups in the medium and high-income groups, to support the retail portfolio managers in the branches and to monitor their performances;

- The name of the existing Retail Banking Department was changed as Retail Loans Department;

- Procurement Office was opened to perform the related operations and to report to Support Services Department;

- YTL Transactions Management and the FX Transactions Management operating under the structure of Fund Management Department were combined under the title of "Dealing Room Management";

- Credit Cards Financial Control Management reporting to the Credit Cards Department was opened in order to increase the functionality of Credit Cards Management and enable it to concentrate on its core activities.

Within the scope of the restructuring works and activities, the following managements were opened in order to provide the banking services in a more organized, rapid and efficient manner and to solve the problems on site and in an accelerated manner:

-Ankara Regional Directorate opened in the province of Ankara,

-Marmara Regional Directorate opened in the province of Bursa,

-Black Sea Regional Directorate opened in the province of Samsun,

-Eastern Anatolia Regional Directorate opened in the province of Erzurum,

-Central Anatolia Regional Directorate opened in the province of Konya,

-Istanbul 2nd Regional Directorate opened in the province of Istanbul (Anatolian Side).

The name of the Istanbul Regional Directorate, one of the regional directorates still continuing its activities and operating within the structure of Istanbul Deputy General Directorate was changed as Istanbul 1st Regional Directorate (European Side).

Mortgage teams were formed in Ankara, Istanbul and Izmir in order to perform mortgage transactions in the said cities.

| TITLE GROUPS                            | NUMBER OF PERSONNEL (31.12.2005) |
|---|----------------------------------|
| GENERAL MANAGER                         | 1                                |
| ASSISTANT GENERAL MANAGER               | 10                               |
| HEAD AND HEAD ASSISTANT                 | 21                               |
| REGIONAL DIRECTOR AND DIRECTORS GROUP   | 338                              |
| INSPECTOR AND ASSISTANT INSPECTOR       | 110                              |
| EXECUTIVE CONTROLLER AND SUPERVISOR     | 41                               |
| FINANCIAL ANALYST, EXPERT AND ASSISTANT | 492                              |
| LEGAL GROUP                             | 87                               |
| IT GROUP                                | 164                              |
| ARCHITECT AND ENGINEER GROUP            | 39                               |
| SERVICE MANAGER                         | 871                              |
| EXECUTIVE DIRECTORS                     | 1246                             |
| RESPONSIBLE AUTHORITIES                 | 678                              |
| ASSISTANTS OF RESPONSIBLE AUTHORITIES   | 1260                             |
| CASH GROUP                              | 267                              |
| OFFICERS                                | 631                              |
| OTHER OFFICIALS                         | 908                              |
| <b>TOTAL</b>                            | <b>7164</b>                      |

## HUMAN RESOURCES AND TRAINING

Aware of the fact that achieving a competitive advantage through increasing the service quality in the banking sector can only be realized by the employment of the people having the substantially required qualifications and the development of the existing workers and the improvement

of their performances, our Bank has reorganized its employment, training and promotion processes in accordance with the aforesaid purposes within the scope of the Reengineering and Restructuring Project.

Our Bank employs 7164 staff members by the end of 2005 and their distribution by their title groups is presented in the table above. 47% of Vakıfbank's personnel are composed of females and 52% of them are the graduates of higher education, master and doctorate degrees.

## Training

Our Bank has been organising in-service and non-Bank trainings for all of its personnel under any title throughout their career in both banking and the personal development fields. The trainings determined in accordance with the requirement analysis performed by Training Management in 2005 have been organised in order to meet the demands of our personnel. To this effect, training has been provided to 9318 participants in total.

## PRESS AND PUBLIC RELATIONS

Our Bank has continued its activities towards the enhancement of the Customer Portfolio, more efficient introduction and publicity of the existing and new services to broader masses of people, and supporting the Cultural and Artistic activities and organisations in 2005 like in the previous years.

Our commercials were published in various television channels, newspapers, radios, cinemas, web sites and local televisions under the slogan of "İstek Sizden Destek Bizden" (You Want, We Provide) within the framework of the image campaign of our Bank and the slogans of "Vakıfbank Büyüyor" (Vakıfbank is Growing) and "Vakıfbank Halka Açılıyor" (Vakıfbank is Opening to Public) within the framework of the Public Offering campaign of our Bank.

Our Bank has sponsored the following activities and opened our stands in the related locations allocated to us:

3<sup>rd</sup> International Finance Summit 2005 organized by Active Academy to which our General Manager, Mr. Bilal KARAMAN participated as a lecturer;

IV. Industrial Congress organized by Istanbul Chamber of Commerce (ISO) on the date dates of 25th-26th November 2005 under the main theme of "Sustainable Competitive Power and the Turkish Industry in the Process of Membership to the European Union";

The campaign of "One Million Books to the Children in Priority Regions for Development" organised by the Association of Radio and Television Journalists (RTGD);

Opening of 2005-2006 Art Season organised by States Conservatory Graduates Association;

Moto Gp races held in Istanbul Park;

The activities organised on the occasion of 05th June, World Environment Day;

38<sup>th</sup> Annual Meeting of Board of Governors organised by the Asian Development Bank;

The athletes participating in the World Championship Wrestling;

Silk Road Turkish Export Products Fair

As required by our social banking understanding, the advertisement of our Bank was put on the Mobile Ocular Health vehicle of Association of Ocular Health Protection and Sight-Disabled People.

In 2005, Our Bank has also continued its support to culture and art with a total of 63 exhibitions including 26 in Atakule Art Gallery, 19 in Ankara Head Office Foyer, and 18 in Istanbul Region Levent Foyer. Of the exhibitions opened in 2005, the exhibition catalogues of Firdevsi Feyzullah, and Tahsin Ceylan were published and submitted to the appreciation of art-lovers.

## CONSTRUCTION AND REAL ESTATE WORKS

The repair and decoration construction works of our 218 branches were completed as of 31.12.2005 in accordance with the resolutions taken by the Steering Committee about the renovation of our Branches required by the new service model within the framework of our Bank's Reengineering and Restructuring Project.

The number of the real estates that was 1.156 as of December 2004 decreased to 1.025 as a result of the sale of 285 units of redundant and completed real estates and the acquisition of 154 units of real estates including 152 completed real estates. A total of 138.543 thousand YTL has been gained as revenues from the sales of 258 units of completed and redundant real estates.

## PARTICIPATIONS

Having continued its contributions in the national economy through its participations operating in various sectors as well as the modern banking services, Vakıfbank has had the same number of participations by the end of 2005, which were 28 in 2004. The shares of our Bank in Banque de Bosphore, one of our participations were sold on 10.3.2006.

The number of participations by their sectors in which they operate are 6 in banking, 2 in insurance, 18 in finance sector including 10 other financial partnerships; 1 in energy, 3 in tourism, 1 in manufacture, and 10 in non-financial sector including 5 in other commercial sectors.

By the end of 2004, the total subscription in these participations has increased by 1.10% compared to the previous year and reached to 280.6 million YTL in total. Of this, the amount 256.2 million YTL is subscribed and undertaken in cash while the amount of 24.4 million YTL is in the form of bonus issues.

**Table of Vakıfbank's participations by sectors as of 31.12.2005**

|  | Shareholders Equity<br>(YTL) | Vakıfbanks Share<br>in Total Equity (%) |
|--|------------------------------|---|
| <b>I – BANKS</b>                               |                              |   |
| Banque Du Bosphore (*)                         | (EURO) 16.000.000            | 20,00                                   |
| iMKB Takas ve Saklama Bankası A.Ş.             | 60.000.000                   | 4,86                                    |
| Kıbrıs Vakıflar Bankası Ltd.                   | 17.000.000                   | 15,00                                   |
| T.Sınai Kalkınma Bankası A.Ş.                  | 200.000.000                  | 8,38                                    |
| World Vakıf Off Shore Banking Ltd.             | (US) 500.000                 | 82,00                                   |
| VakıfBank International A.G.                   | (EURO) 20.000.000            | 90,00                                   |
| <b>II – INSURANCE AFFILIATES</b>               |                              |   |
| Güneş Sigorta A.Ş.                             | 75.000.000                   | 35,35                                   |
| Vakıf Emeklilik A.Ş.                           | 26.500.000                   | 53,90                                   |
| <b>III-MANUFACTURING INDUSTRY AFFILIATES</b>   |                              |   |
| işkur işçi işadamı Kimya San Kur A.Ş.          | 400                          | 25,00                                   |
| <b>IV – TOURISM</b>                            |                              |   |
| izmir Enternasyonal Otelcilik A.Ş.             | 120.000                      | 5,00                                    |
| Ataköy Mağazacılık Tic A.Ş.                    | 150.000                      | 45,79                                   |
| Taksim Otelcilik A.Ş.                          | 90.000.000                   | 51,00                                   |
| <b>V – OTHER FINANCIAL AFFILIATES</b>          |                              |   |
| Bankalararası Kart Merkezi A.Ş.                | 4.000.000                    | 9,70                                    |
| Kredi Kayıt Bürosu A.Ş.                        | 7.425.000                    | 9,09                                    |
| Vakıf Finansal Kiralama A.Ş.                   | 13.150.000                   | 58,71                                   |
| Vakıf Deniz Finansal Kiralama A.Ş.             | 24.950.000                   | 68,55                                   |
| Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.  | 2.550.000                    | 11,75                                   |
| Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.       | 15.000.000                   | 27,63                                   |
| Vakıf Girişim Sermayesi Yatırım Ortaklığı A.Ş. | 900.000                      | 46,36                                   |
| Vakıf Yatırım Menkul Değerler A.Ş.             | 6.000.000                    | 99,00                                   |
| Vakıf Finans Factoring Hizmetleri A.Ş.         | 22.400.000                   | 78,39                                   |
| EGS Gayrimenkul Yatırım Ort. A.Ş.              | 50.000.000                   | 0,73                                    |
| <b>VI – OTHER COMMERCIAL AFFILIATES</b>        |                              |   |
| Güçbirliği Holding A.Ş.                        | 30.000.000                   | 0,07                                    |
| Vakıf Sistem Paz. Yaz. Ser. Tic San A.Ş.       | 3.000.000                    | 73,00                                   |
| Vakıf Gayrimenkul Ekspertiz ve Değ. A.Ş.       | 500.000                      | 20,00                                   |
| Eti Soda Üretim A.Ş.                           | 33.800.000                   | 0,02                                    |
| Orta Doğu Yazılım Hizmetleri A.Ş.              | 10.000.000                   | 15,00                                   |
| <b>VII – ENERGY AFFILIATES</b>                 |                              |   |
| Vakıf Enerji ve Madencilik A.Ş.                | 85.000.000                   | 65,50                                   |

(\*) The shares of our Bank were sold to Axa Compagnie Financiere de Paris on the date of 10.03.2006.

## VAKIFBANK FINANCIAL SERVICES GROUP

It was established in 1999 to enhance VakıfBank's foreign activities in line with its geographic expansion strategy. VakıfBank owns 90% of VakıfBank International AG's share capital of 20 million EURO.

### WORLD VAKIF OFFSHORE BANKING LTD.

It was established in 1993 with a capital of 500.000 USD Dollars in the Turkish Republic of Northern Cyprus to offer offshore banking services as well as to help Turkey to expand into international markets and to develop its foreign economic relations. Our Bank owns 82% of World Vakıf Offshore Banking Ltd.

### KIBRIS VAKIFLAR BANKASI LTD.

It was established to promote the utilisation of Visa and MasterCard/Eurocard credit cards issued by VakıfBank and to increase the foreign currency inflows. VakıfBank has a shareholding of 15% in the capital of Kıbrıs Vakıflar Bankası Ltd. amounting to 17.000.000,00 YTL.

### GÜNEŞ SİGORTA A.Ş.

Established by VakıfBank in 1957 to offer insurance services under the leadership of VakıfBank. Güneş Sigorta has a capital of 75.000.000,00 YTL, 35.35% of which is owned by the Bank. The Company was the first insurance company that was awarded with TS-EN ISO 9002 Quality Certificate.

### VAKIF EMEKLİLİK A.Ş.

Vakıf Emeklilik A.Ş. was established under the leadership of Güneş Sigorta A.Ş. in 1991 after obtaining the required permit from the Undersecretariat of Treasury. With respect to the Law on Private Pension Savings and Investment System No. 4632, the Company acquired its operations licence on the date of 1st August 2003 and its licence for establishing funds on the date of 5th September 2003, after which it started offering private pension fund services. VakıfBank has a share of 53.90% in the capital of the Company with the amount of 26.500.000,00 YTL.

### VAKIF FİNANSAL KİRALAMA A.Ş.

Established in 1988, Vakıf Finansal Kiralama A.Ş. was selected as one of the top 100 leasing companies in Europe in the year of its foundation. VakıfBank holds 58.71% share in the Company's capital of 13.150.000,00 YTL.

### VAKIF DENİZ FİNANSAL KİRALAMA A.Ş.

Established in 1993 under the leadership of VakıfBank to provide leasing services to maritime industry for dry cargo and ro-ro vessels, etc., Vakıf Deniz Finansal Kiralama A.Ş. has a capital of 24.950.000,00 YTL, 68.55% of which is owned by VakıfBank.

The Company received TS ISO 9002 Quality Assurance Certificate in 1995 and renewed it in 1998. The company was the first to be awarded with this certificate in the financial sector.

### VAKIF MENKUL KIYMETLER YATIRIM ORTAKLIĞI A.Ş.

Established as a publicly-traded company in 1991 to enable professional utilisation of the savings of small-scale and personal investors in the stock exchange, to gain profit through brokerage and trading of securities and to ensure the most effective utilisation of the portfolio through close follow-up of the developments in the foreign exchange and monetary markets, Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. has a capital of 2.550.000,00 YTL, 11.75% of which is owned by VakıfBank.

### VAKIF GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. was established by VakıfBank as the first real estate investment partnership in Turkey with initial paid-in capital of 250 billions TL.

This company, which was established for the purpose of developing and managing a real estate portfolio and real estate-based capital market instruments and making changes in case of necessities, has a capital of 15.000.000,00 YTL, 27.63% of which is owned by VakıfBank.

### VAKIF FİNANS FACTORING HİZMETLERİ A.Ş.

Established in 1998 to provide domestic and international factoring services, Vakıf Finans Factoring Hizmetleri A.Ş. has a capital of 22.400.000,00 YTL, 78.39% of which is owned by VakıfBank.

### VAKIF GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI A.Ş.

Established by VakıfBank to provide financing to entrepreneurs through various types of credits, to contribute in the technological development in Turkey and to extend funds to small and medium-sized enterprises, Vakıf Girişim Sermayesi Yatırım Ortaklığı A.Ş. has a capital of 900.000,00 YTL, 46.36% of which is owned by the Bank. The company currently has investments in three projects where it is a shareholder in the companies developing these projects.

#### VAKIF YATIRIM MENKUL DEĞERLER A.Ş.

Established initially under the trade name of Vakıf Yatırım A.Ş. to perform capital market activities within the scope of the Capital Market Board's policy decisions dated 15th August 1996, the Company has a capital of 6.000.000,00 YTL, 99% of which is owned by the Bank. The Company's name was subsequently changed as Vakıf Yatırım Menkul Değerler A.Ş. in 1998. In addition to brokerage activities, Vakıf Yatırım Menkul Değerler A.Ş. also conducts trading of securities under repurchase and reverse repurchase agreements, investment advisory services, and portfolio management activities, etc.

## VAKIFBANK NON-FINANCIAL SERVICES GROUP

#### TAKSİM OTELCİLİK A.Ş.

Established in 1966 with the purpose of constructing or contracting the construction of tourism facilities, hotels and motels of high quality and value for attracting the foreign trade potential into Turkey has a capital of 90.000.000,00 YTL, 51% of which is owned by Vakıfbank.

#### VAKIF SİSTEM PAZARLAMA YAZILIM SERVİS GÜVENLİK TEMİZLİK TİC. VE SANAYİ A.Ş.

The Company, established under the leadership of Vakıfbank in 1989 with the purpose of installing, importing and exporting electronic devices, equipment and systems and marketing stationery materials has a capital of 3.000.000,00 YTL, 73% of which is owned by our Bank. The company has a photocopier maintenance-repair unit and a press and it sells its products to Vakıfbank as well as its subsidiaries, affiliates and other institutions.

#### VAKIF GAYRİMENKUL EKSPERTİZ VE DEĞERLENDİRME A.Ş.

Established to provide expert services oriented towards Real Estate Mutual Funds and Partnerships the establishment of which was approved with the amendments in the Capital Markets Law has a capital of 500.000,00 YTL, 20% of which is owned by Vakıfbank. The Company provides expert services to various banks and particularly to VakıfBank, leasing companies and private sector.

#### ORTA DOĞU YAZILIM HİZMETLERİ A.Ş.

This company, which is one of the most important service providers of Internet sector in our country, has a capital of 10.000.000,00 YTL, 9% of which is owned by Vakıfbank. By the end of 2005, the Company has in total 37.374 registered dial-up customers including 21.476 non-paying customers, 172 Leased Line customers, 107 VPN customers, 36 Server Hosting Customers, 96 Telecom customers, 1.136 WWW (Web Hosting) customers, and 33 (MX) Mail Hosting customers.

#### VAKIF ENERJİ VE MADENCİLİK A.Ş.

This Company was established under the leadership of Vakıfbank with the purpose of establishing plants and facilities capable of generating electric energy and heat energy, generating electricity and heat, and selling the electricity and heat energy generates in accordance with the existing laws, decrees and regulations; and the Bank participated in it in January / 2001. The Company has a capital of 85.000.000,00 YTL, 65.50% of which is owned by Vakıfbank.

C GRUBU

C GRUBU

# Türkiye Vakıflar Bankası T.A.O.

MERKEZİ : ANKARA  
TESCİL TARİHİ : 8.4.1954

SERMAYESİ : 80.000.000.000.— TÜRK LİRASI

## MUVAKKAT HİSSE SENEDİ İLMÜHABERİ

Bankamız sermayesi 17 Milyar Liradan 80 Milyar Liraya yükseltilecek  
10.6.1987 tarihinde tasvir edilmiş,  
18.6.1987 tarih ve 1789 sayılı 7. Ticaret Sicil Gazetesinde ilan edilmiştir.  
Bankamız itibari sermayesi her biri 10.000 Türk Lirası kıymetinde  
8.000.000 hisseye ayrılmış olup  
% 55 / (A) grubu, % 20 si / (B) grubu, % 25 i / (C) grubu  
hisselerinden oluşmaktadır.

Nİ 70170

Ortağın Adı Soyadı : .....

İkametgahı : .....

Taahhüt Ettiği Pay : -

|              | Tarihi    | Açıklama              | Tutarı  | Şube ve Yetkili İmzası |
|--------------|-----------|-----------------------|---------|------------------------|
| BEDELSİZ PAY | 31.3.1987 | Yeniden Değerlendirme | 3.500.- | Genel Müdürlük         |

### APEL ÖDEMELERİ

|             | Ödemenin Yapıldığı Tarih | Açıklama | Tutarı | Şube ve Yetkili İmzası |
|-------------|--------------------------|----------|--------|------------------------|
| 1 inci Apel |                          |          |        |                        |
| 2 inci Apel |                          |          |        |                        |
|             |                          |          |        |                        |

Banka ana sözleşmesi hükümlerine bağlı olarak ve 10.000.- TL ve katlarının hisse senetleriyle değiştirilmek, bundan artan kesimler için sadece makbuz hükmünde olmak üzere bu belge düzenlenmiştir.

İdare Meclisi Başkanı

Serife Atlar'a

Genel Müdür





## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Vakıfbank has adopted as its fundamental management principle to pay utmost attention to the complete implementation of the corporate governance principles as required by its responsibility against its customers, shareholders and employees. Within this scope, the requisite amendments have been made in our Articles of Incorporation for harmonisation with the Corporate Governance Principles determined by the Capital Markets Board.

The compliance with the Corporate Governance principles has been undertaken with the statement stipulated in the article (Article 75) added to our Articles of Incorporation with the Resolution of the Extraordinary General Assembly dated 24th.10.2005 as reads: "The Bank and its affiliates shall strive with utmost care and diligence to follow the regulations about the Corporate Governance. However, in case that the said principles cannot be fulfilled completely, the related reasoning and the unilateral statement of will including information about the conflicts of interest resulting from the failure in the complete fulfilment of these principles, and if any, the related compliance report shall be included within the annual activity report and the related situation shall be disclosed to the public."

As per the other amendments made in our Articles of Incorporation, a decision was taken for inclusion of independent members in the board of directors as required by the corporate governance principles; and the Corporate Governance and Nominating Committee was established. It was resolved that the Committee be composed of at least two members, and that in case the committee is composed of two members, both of the members shall be non-executive members and

in case the number of Committee members exceeds two, the majority of the members shall be non-executive members. It is essential that the Chairman of the Corporate Governance and Nominating Committee shall be an independent member. The main duties and responsibilities of the Corporate Governance and Nominating Committee were determined as monitoring the compliance with the corporate governance principles, recommending the corrective actions in respect thereof, determining the methods that will provide transparency in the election of the candidates for the membership in the Board of Directors, performing the related works and developing recommendations about the number of executives in the top management levels, developing and following the implementation of the recommendations about the principles and applications in respect of performance evaluation and rewarding of the members of the Board of Directors and the executives, submitting recommendations to the Board of Directors about the persons to be assigned to top management levels including the deputy director general of the Bank or the corresponding competent authorities; investigating the independency of the members of the Board of Directors and revealing if any, the conflicts of interest among them; and making evaluations about the structure of the committees reporting to the Board of Directors and their operating conditions.

The management of our Bank treats the shareholders and stakeholders fairly and equally in all of its activities. Investor Relations Group was founded in order to answer the questions of the shareholders accurately and on a timely basis upon the public offering of our Bank in the 2nd quarter of 2005. All of the questions that do not bear any trade secrets are answered by the said group according to the principle of equality. The investors are regularly informed about the periodical progress in the financial statements of our Bank, the changes in the Bank's strategies and the Bank's projections about the future.

## INVESTOR RELATIONS

To give correct, clear, net and complete information to the bank's shareholders excluding the information that are within the scope of confidential and trade secrets;

To organise periodical meetings with the participation of the Bank Management for informing the Bank's shareholders;

To ensure that that the General Assembly meetings are performed in accordance with the legislation, articles of incorporation and the in-house regulations of the bank;

To perform the documents about the General Board meetings and to forward them to the shareholders;

To enable the shareholders to use the Bank's internet site in an active manner;

To follow and abide by the principle of public disclosure covering the legislation and the company's information policy;

To take all kinds of actions and precautions that may be required for ensuring the investors' satisfaction about the Bank's services;

To organise the meetings with the participation of the Bank Management and Investors for discussing any extraordinary issues that may arise in relation with the Bank.

Contact information about the Investor Relations Group

Selçuk Gözüak : +90 212 316 75 00

Yunus Oğuzhan Aloğlu : +90 212 316 71 21

E-mail: investor.relations@vakifbank.com.tr

Within the framework of the principle of public disclosure and transparency, the Investor relations menu was added into the website of our Bank; and the Articles of Incorporation and the Act of our Bank, minutes of general assembly meetings, the periodical financial statements and activity reports, special case statements, presentations, and press bulletins were presented in the web site of <http://www.vakifbank.com.tr> for the

information of the public and our shareholders.

The rules about the composition, duties and responsibilities of the Board of Directors are clearly stated within the articles of incorporation of our Bank. The meetings of the Board of Directors are regularly performed two times a month in our Bank. In the year of 2005, an article was added to our articles of incorporation stipulating the rules about the composition of Audit Committee and the related committees as well as the Corporate Governance and Nominating Committee for efficient and effective management of the works and activities of the Board of Directors. The Audit Committee is liable and responsible for monitoring the efficiency and adequacy of the internal control, risk management and internal audit systems of the bank on behalf of the Board of Directors and to follow the functioning of the accounting and reporting systems in accordance with the laws and related regulations and the integrity of the information produced; to perform the pre-qualification assessments required for the selection of independent audit institutions by the Board of Directors; regular monitoring of the activities performed by the independent audit institutions selected by the Board of Directors; and ensuring the consolidated maintenance and coordinated management of the internal audit functions of the institutions subject to consolidated audit. It was resolved that the Committee be composed of at least two members, and that in case the committee is composed of two members, both of the members shall be non-executive members and in case the number of Committee members exceeds two, the majority of the members shall be non-executive members. It is essential that the chairman of the Audit Committee shall be an independent member.

Therefore, our Bank has completed the requisite legislative and organisational infrastructure activities for enabling the functioning of the Corporate Governance principles by the year of 2005; and it will accelerate its activities towards the implementation, monitoring and development of the Corporate Governance principles by the year of 2006.



# EVALUATION ABOUT THE FUNCTIONING OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Bank's Internal Control and Risk Management Units established in accordance with the Banks' Regulation on Internal Control and Risk Management Systems have continued its activities in order to increase the efficiency of the system in 2005. Within this scope:

Systematic internal audits were performed covering the Bank's branches, units and participations and affiliates in accordance with the Banking Law, legal regulations and Bank's by-laws completely independent from the daily activities of the Bank.

Efforts were endeavoured in order to correct the deficiencies determined during these audits, to compensate or receive securities for the current and potential losses of the Banks incurred due to the acts and behaviours of the personnel considered as faults or offences; the required investigation-survey reports were arranged about the responsible parties and submitted to the information of the administration. Joint activities were commenced with the related units in order to prevent such events.

A work group has been formed under the structure of the Audit Board in order to ensure the compliance of all of the audit activities including the Audit of the Information Processing Systems (IT Audit) with the international standards and to concentrate the centralized audit activities; and it is planned to commission this work group in the year of 2006.

35 internal control staff members carried out the internal control activities of the branches in 2005; and 7 internal control personnel commenced internal control activities in the General Directorate Units.

The deficient or faulty applications detected as a result of the internal control activities carried out by the internal control personnel working in the said branches and units were corrected and the subsequent results were monitored.

Efforts were made in order to determine the application faults that are experienced in general and the areas that are not controlled adequately through the evaluation of the internal control findings; and the potential improvements in the related work processes were recommended to the related General Directorate Units.

The evaluation reports arranged quarterly were consolidated according to their types identified during the internal control findings and annual activity reports were reviewed and the Board of Directors was informed about the contents of these reports duly.

Vakıfbank's Basel II Coordinator and Basel II Project Group were determined in order to provide coordination in the harmonisation activities with Basel II applications that will be put into application by the end of 2007; and our Bank's

Basel II Road Map prepared by the said project group in accordance with the directive of BRSA (Banking Regulation and Supervising Agency) was approved in the meeting of the Board of Directors dated 10.11.2005. It was determined that the plans for 2005 specified in the Basel II Road Map were complied without any delays or deficiencies. Furthermore, meetings were organised for informing and training the personnel about Basel II. Activities were commenced for the implementation of a risk management system in the affiliates of our Bank and the establishment of a consolidated risk management system accordingly.

The issues determined as a result of the activities and studies performed in the fields of Market Risk, Credit Risk and Operational Risks were presented to the attention of the decision-taking management levels.

The position, product and transaction limits determined for providing risk control within the scope of Market risks were reviewed on daily basis and it was determined that the said limits determined were not exceeded.

Activities were performed towards determining the duration of assets and liabilities and the optimal liquidity level of our Bank in relation with the Assets-Liabilities management.

Activities towards determining the risk concentration limits related with credit types, sectors and regions as per the Credit Risk Management Policy Document were finalized.

The scoring system created for the consumer loans (including the overdrafts and credit cards) is implemented in a successful manner in the credit placement process in our banks. The activities are still being continued about the scoring model to be applied for small and medium-scale enterprises (SMEs) and it is targeted that this model will be completed and put into application in 2006. Studies about the default possibility of our loans and determination of the potential loss amounts in case of defaults are still ongoing.

5-year operational loss data that will constitute the operational risk database have been collected and the operational risk analysis report has been arranged. The operational loss data have been analysed and the studies were performed for the determination of risk factors; subsequently, the related determinations were presented to the attention of the Management levels of our Bank. However, towards the establishment of a more effective risk management system, it will be important in the future periods:

To accelerate the studies oriented particularly towards database modelling despite the progress achieved in the studies about the market risk, credit risk and operational risks;

To harmonize the Bank's credit rating system with the credit rating grades of the foreign rating agencies for ensuring parallelism with the Basel II applications and to establish the security rating on the basis of this structure.

**Cem DEMİRAĞ**

Member of the Board of Directors

Responsible for Internal Control and Risk Management



100  
HISSE  
1.000.000  
TÜRK LİRASI

02+2+NS+001000000+000+2170+ 0004602



## TÜRKİYE VAKIFLAR BANKASI T.A.O.

SERMAYESİ : 1.000.000.000.000.- TÜRK LİRASI

Bu hisse senedi, sermayenin 500.000.000.000.- TL.'den 1.000.000.000.000.- TL.'na artırılması nedeniyle ve İdare Meclisimizin 13.03.1992 tarih ve 53003 sayılı kararı ile Sermaye Piyasası Kurulu'nun Seri : I, No : 5 Tebliği uyarınca, 27.03.1992 tarihinde Ankara Ticaret Sicil Memurluğunca tescil edilmiş bulunan 500.000.000.000.- TL.'lık sermayeyi temsil eden A,B,C grubu hisse senetlerinin yerine geçmek üzere, ihraç edilmiştir.

Ortaklığımız sermayesinin artırılması; Sanayi ve Ticaret Bakanlığı'nın 06.12.1991 tarih ve 53345 sayılı izni, Ankara Asliye Ticaret Mahkemesi'nin 26.03.1992 tarih ve esas 1992/373 sayılı kararı, 27.03.1992 tarihinde Ankara Ticaret Siciline tescil ve 30.03.1992 tarih ve 2996 sayılı T. Ticaret Sicil Gazetesinde ilân ile gerçekleştirilmiştir.

### NAMA YAZILI

BEHERİ 10.000 TÜRK LİRASI İTİBARI DEĞERDE  
100 HİSSE KARŞILIĞINDA 1.000.000 TÜRK LİRALIK  
2. TERTİP B GRUBU HİSSE SENEDİDİR.

BU HİSSE SENEDİNİN KUPONLARININ TEMSİL ETTİĞİ HAK, ORTAKLIĞIMIZA KARŞI, SADECE  
BU HİSSE SENEDİNİN BELGE NUMARASINI TAŞIYAN KUPONLARIN TESLİMİ KARŞILIĞINDA KULLANDIRILIR.

İDARE MECLİSİ BAŞKANI

TÜRKİYE VAKIFLAR BANKASI T.A.O.

GENEL MÜDÜR

Bu hisse senedi 3'den 18'ye kadar numaranın 14 adedi yeni pay alına kuponu,  
1993 den 2004'e kadar 12 adedi kar payı kuponu ihtiva etmektedir.

# Deloitte.

Denetim Serbest  
Mali Müşavirlik A.Ş.  
Anıtape İş Merkezi  
A Blok Kat:7 No:8  
06510 Sıgöçtürü,  
Ankara, Türkiye

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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.



Member of  
Deloitte Touche Tohmatsu

# 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

Member of  
Deloitte Touche Tohmatsu

TÜRKİYE VAKIFLAR BANKASI T.A.O.  
CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2005

50  
HISSE  
500.000  
TÜRK LİRASI

06+3+KS+000500000+000+2170+ 0002028

**VB**

**TÜRKİYE VAKIFLAR BANKASI T.A.O.**

KAYITLI SERMAYESİ : 50.000.000.000.000.- TÜRK LİRASI  
KAYITLI SERMAYE TESCİL TARİHİ : 15.02.1996

Ortaklığımız Sermaye Piyasası Kurulu'nun 18.01.1996 tarih ve 85 sayılı izni, Ticaret Sicil Memurluğu'nun 15.02.1996 tarihli tesciliyle kayıtlı sermaye sistemine geçmiştir.  
Bu hisse senedi, Yönetim Kurulumuzun 13.01.1998 tarih ve 2049-3 sayılı kararını takiben, Sermaye Piyasası Kurulu'nca 07.10.1998 tarih ve 165/1092 sayılı ile kayda alınarak, Ortaklığımızın 25.000.000.000.000.- TL. olan çıkarılmış sermayesinin artırılması nedeniyle ihraç edilmiştir.

**NAMA YAZILI**  
**BEHERİ 10.000 TÜRK LİRASI İTİBARI DEĞERDE**  
**50 HİSSE KARŞILIĞINDA 500.000 TÜRK LİRALIK**  
**6. TERTİP C GRUBU HİSSE SENEDİDİR.**

BU HİSSE SENEDİNİN KUPONLARININ TEMSİL ETTİĞİ HAK, ORTAKLIĞIMIZA KARŞI, SADECE  
BU HİSSE SENEDİNİN BELGE NUMARASINI TAŞIYAN KUPONLARIN TESLİMİ KARŞILIĞINDA KULLANILIR.

TÜRKİYE VAKIFLAR BANKASI T.A.O.

İDARE MECLİSİ BAŞKANI İDARE MECLİSİ ÜYESİ

*[Signature]* *[Signature]*

Bu hisse senedi 5'den 20'ye kadar numaralı 15 adet yarı pay alımı kuponu, 1998'den 2007'ye kadar yıl numaralı 10 adet kâr payı kuponu ihtiva etmektedir.

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)

| ASSETS   | Note | 31 December<br>2005<br>000 YTL | 31 December<br>2004<br>000 YTL |
|--|------|--------------------------------|--------------------------------|
| 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)

| LIABILITIES   |           | As restated<br>31 December<br>2005 | 31 December<br>2004 |
|---|-----------|------------------------------------|---------------------|
|   | Note      | 000 YTL                            | 000 YTL             |
| 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)

|   |      | As restated<br>2005 | 2004             |
|---|------|---------------------|------------------|
|   | Note | 000 YTL             | 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                         |      | 1,474,193           | 1,295,851        |
| Loan Loss Provision (Expense)                         |      | (262,039)           | (172,271)        |
| <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                                |      | 8,928               | 81,332           |
| <b>INCOME BEFORE TAX AND MONETARY (LOSS)</b>          |      | <b>988,708</b>      | <b>1,159,393</b> |
| Taxation  | 20b  | (189,333)           | (202,515)        |
| <b>INCOME BEFORE MONETARY (LOSS)</b>                  |      | <b>799,375</b>      | <b>956,878</b>   |
| Monetary (Loss)                                       |      | (53,268)            | (88,422)         |
| <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 | 0.946               | 1.839            |



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)

|   | Paid in Capital<br>000 YTL | Revaluation<br>Fund<br>000 YTL | Share<br>Premium<br>000 YTL | Retained<br>Earnings<br>000 YTL | Minority<br>Interest<br>000 YTL | Total<br>000 YTL |
|---|----------------------------|--------------------------------|-----------------------------|---------------------------------|---------------------------------|------------------|
| <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> |

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)

|   | As restated<br>31.12.2005 | 31 12 2004       |
|---|---------------------------|------------------|
|   | 000 YTL                   | 000 YTL          |
| <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                             | (5,273,908)               | (3,248,006)      |
| <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             | (34,949)                  | 146,292          |
| <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                         | 6,112,406                 | 3,864,516        |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                    | <b>803,549</b>            | <b>762,802</b>   |
| <b>CASH AND CASH EQUIVALENTS AT<br/>THE BEGINNING OF THE PERIOD</b> | <b>2,976,392</b>          | <b>2,213,590</b> |
| <b>CASH AND CASH EQUIVALENTS AT<br/>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.

## 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.

## 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 |
|--|---------------------|-------------|
| Consolidated Balance Sheet / Statement of Changes in Shareholders Equity |                     |             |
| Revaluation Fund   | 183,301             | 290,497     |
| Retained Earnings  | 354,845             | 218,263     |
| Minority interest  | 294,226             | 323,612     |
| Consolidated Income Statement  |                     |             |
| 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       |
| Consolidated Statement of Cash Flow                                      |                     |             |
| Net profit for the year  | 803,158             | 746,107     |
| Change in minority interest  | 51,722              | -           |

## 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.