KPMG

Anadolubank Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
31 December 2007
With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

22 February 2008

This report contains the "Independent Auditors' Report" comprising 1 page and the "Consolidated Financial Statements and their explanatory notes" comprising 53 pages.

Anadolubank Anonim Şirketi
And Its Subsidiaries

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Independent Auditors' Report

To the Board of Directors of Anadolubank Anonim Şirketi

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Anadolubank Anonim Şirketi ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

Istanbul, Turkey
22 February 2008

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.,
a Turkish corporation and a member firm of the KPMG network of independent
member firms affiliated with KPMG International, a Swiss cooperative.

Anadolubank Anonim Şirketi and Its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2007
Currency – Thousands of New Turkish Lira (YTL)

	Notes	31 December 2007	31 December 2006
ASSETS			
Cash and balances with the Central Bank	6	337,784	58,668
Deposits with banks and other financial institutions	6	170,872	277,991
Interbank money market placements	6	110,047	146,286
Financial assets designated at fair value through profit or loss	7	4,672	25,413
Derivative financial instruments held for trading purpose	8	10,430	791
Investment securities	9	396,634	651,201
Loans and receivables	10,11	1,904,116	1,486,416
Property and equipment	12	21,536	16,961
Intangible assets	13	2,106	2,819
Deferred tax assets	18	4,953	--
Other assets	14	177,769	186,997
Total assets		**3,140,919**	**2,853,543**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from banks	15	1,741	37,456
Customers' deposits	15	1,909,336	1,700,423
Other money market deposits	15	133,197	126,430
Funds borrowed	16	518,666	623,923
Derivative financial instruments held for trading purpose	8	47,939	15,889
Other liabilities and provisions	17	143,424	35,088
Income taxes payable	18	5,293	5,795
Deferred tax liabilities	18	71	2,394
Total liabilities		**2,759,667**	**2,547,398**
Share capital issued	19	227,619	227,619
Revaluation of available-for-sale financial assets	19	(6,891)	(6,928)
Currency translation adjustment		(2,895)	(1,290)
Other reserves and accumulated profits		162,102	85,645
Total equity attributable to equity holders of the Bank		**379,935**	**305,046**
Minority interest	19	**1,317**	**1,099**
Total shareholders' equity		**381,252**	**306,145**
Total liabilities and shareholders' equity		**3,140,919**	**2,853,543**
Commitments and contingencies	23	**1,511,006**	**1,604,289**

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

Anadolubank Anonim Şirketi and Its Subsidiaries
Consolidated Income Statement
As at and For the Year Ended 31 December 2007
Currency – Thousands of New Turkish Lira (YTL)

	Notes	31 December 2007	31 December 2006
Interest income:			
Interest on loans and receivables		314,729	207,865
Interest on marketable securities		68,445	85,276
Interest on deposits with banks and other financial institutions		30,477	21,218
Interest on other money market placements		6,758	3,715
Other interest income		5,631	1,354
Total interest income		**426,040**	**319,428**
Interest expense:			
Interest on deposits		(178,884)	(157,221)
Interest on other money market deposits		(16,773)	(17,751)
Interest on funds borrowed		(40,424)	(29,495)
Other interest expense		(3,566)	(169)
Total interest expense		**(239,647)**	**(204,636)**
Net interest income		**186,393**	**114,792**
Fees and commissions income		54,858	44,861
Fees and commissions expense		(10,769)	(5,738)
Net fees and commissions income		**44,089**	**39,123**
Other operating income:			
Trading income		--	13,961
Foreign exchange gains		13,668	--
Other income		7,851	6,407
Total other operating income		**21,519**	**20,368**
Other operating expense:			
Salaries and employee benefits	21	(77,899)	(60,426)
Trading losses		(23,469)	--
Foreign exchange losses		--	(3,218)
Provision for possible loan losses, net of recoveries	10	(10,620)	(4,145)
Depreciation and amortization	12,13	(5,894)	(5,284)
Taxes other than on income		(2,772)	(2,826)
Other expenses	22	(35,208)	(31,464)
Total other operating expense		**(155,862)**	**(107,363)**
Income from operations		**96,139**	**66,920**
Income tax provision	18	(19,459)	(17,534)
Net income for the year		**76,680**	**49,386**
Net income for the year attributable to:			
Equity holders of the Bank		76,457	49,322
Minority interest	19	223	64
Earning per share (full YTL)		0.0034	0.0022

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

Anadolubank Anonim Şirketi and Its Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
As at and for the year ended 31 December 2007
Currency – Thousands of New Turkish Lira (YTL)

	Notes	Share capital	Minority Interest	Currency translation adjustment	Revaluation of available-for-sale financial assets	Legal reserves and accumulated profits	Total
Balances at 1 January 2006		**100,976**	**1,035**	**(1,726)**	**25,411**	**107,966**	**233,662**
Transfer from unappropriated earnings	19	71,643	--	--	--	(71,643)	
Share capital increase	19	55,000	--	--	--	--	55,000
Net market value losses from available-for-sale portfolio	19	--	--	--	(25,634)	--	(25,634)
Net losses on available-for-sale assets transferred to the income statement on disposal	19	--	--	--	(6,705)	--	(6,705)
Currency translation adjustment		--	--	436	--	--	436
Net income for the year		--	64	--	--	49,322	49,386
At 31 December 2006		**227,619**	**1,099**	**(1,290)**	**(6,928)**	**85,645**	**306,145**
Balances at 1 January 2007		**227,619**	**1,099**	**(1,290)**	**(6,928)**	**85,645**	**306,145**
Net gains on available-for-sale assets transferred to the income statement on disposal	19	--	--	--	37	--	37
Currency translation adjustment		--	(5)	(1,605)	--	--	(1,610)
Net income for the year		--	223	--	--	76,457	76,680
At 31 December 2007		**227,619**	**1,317**	**(2,895)**	**(6,891)**	**162,102**	**381,252**

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

Anadolubank Anonim Şirketi and Its Subsidiaries
Consolidated Statement of Cash Flows
As at and For the Year Ended 31 December 2007
Currency – Thousands of New Turkish Lira (YTL)

	Notes	31 December 2006	31 December 2006
Cash flows from operating activities			
Income before minority interest		76,680	49,386
Deferred taxation	18	(7,347)	9,487
Provision for loan losses	10,11	3,314	3,995
Depreciation and amortization	12,13	5,876	5,284
Provision for retirement pay liability	17	879	2,549
Other various expense accruals		1,971	2,638
Currency translation differences		(2,895)	(436)
Operating profit before changes in operating assets and liabilities		**78,478**	**72,903**
Changes in operating assets and liabilities			
Deposits with banks		(28,025)	(22,513)
Reserve deposits		84,221	(71,391)
Financial assets at fair value through profit or loss		20,741	180,885
Loans and receivables		(421,014)	(319,969)
Derivatives		22,411	15,281
Other assets		(74,993)	(3,923)
Deposits		173,198	100,685
Other liabilities and provisions		102,649	(4,618)
Income taxes payable		3,510	1,489
Cash used in operating activities		**(38,824)**	**(51,171)**
Cash flows from investing activities			
Net investment in property and equipment, and intangible assets		(9,738)	(4,448)
Net (increase)/decrease in security investments		254,771	(244,934)
Cash provided by/(used in) investing activities		**245,033**	**(249,382)**
Cash flows from financing activities			
Net (decrease)/increase in funds borrowed		(98,490)	290,213
Increase in share capital		--	55,000
Cash (used in)/provided by financing activities		**(98,490)**	**345,213**
Net increase in cash and cash equivalents		**107,719**	**44,660**
Cash and cash equivalents at the beginning of the year		**460,432**	**415,772**
Cash and cash equivalents at the end of the year	6	**568,151**	**460,432**
Interest paid		187,923	203,877
Interest received		431,360	298,124
Income taxes paid		27,184	6,445

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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Anadolubank Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements
As at and For the Year Ended 31 December 2007

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

1. Overview of the Bank

Anadolubank AŞ ("the Bank"), has commenced operations pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692 and started its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes. The Bank provides corporate, commercial and retail banking services through a network of 76 (31 December 2006: 63) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 80260 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

The Bank has four consolidating subsidiaries which are Anadolubank Off-shore Limited ("Anadolubank Offshore"), Anadolu Yatırım Menkul Kıymetler AŞ ("Anadolu Yatırım"), Anadolu Finansal Kiralama AŞ ("Anadolu Leasing"), and Anadolubank Nederland NV ("Anadolubank Nederland").

The Bank has 99.4% ownership in Anadolubank Offshore, established in the Turkish Republic of Northern Cyprus (TRNC). Anadolubank Offshore is licensed to undertake all commercial banking transactions.

The Bank has 82% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has 99.92% ownership in Anadolu Leasing, located in Istanbul. Anadolu Leasing was established on 8 December 2005 by obtaining the leasing license which is required to operate in the finance leasing sector.

The Bank has 100% ownership in Anadolubank Nederland, located in Amsterdam-the Netherlands. The Bank aims to engage in banking operations in the Netherlands with the capital of Euro 500,000. In 2007 with the resolution of board of directors the Bank has decided to use pre-emptive right during the capital increase of Anadolubank Nederland from Euro 500,000 to Euro 15,000,000. The related amount has been paid in cash on 20 August 2007.

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

2. Basis of preparation

(a) Statement of compliance

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in New Turkish Lira ("YTL") in accordance with the Turkish Financial Reporting Standards (Turkish version of International Financial Reporting Standards) as regulated by the Banking Regulation and Supervision Agency ("BRSA"), accounting principles promulgated by the Capital Markets Board of Turkey, the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in US Dollars and in EUR in accordance with the regulations of the countries in which they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The Group adopted all IFRS, which were mandatory as of 31 December 2007. The accompanying consolidated financial statements are authorized for issue by the directors on 22 February 2008.

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

(b) Basis of measurement

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

(c) Functional currency and presentation currency

These financial statements are presented in YTL, which is the Bank's functional currency.

(d) Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). This, together with the sustained positive trend in quantitative factors, such as the stabilization in financial and monetary markets, decrease in interest rates and the appreciation of YTL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

Basis of preparation *(continued)*

(e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 10 – Loans and receivables
- Note 11 – Minimum lease receivables
- Note 17 – Other liabilities and provisions
- Note 18 – Income taxes
- Note 24 – Financial risk management

3. Basis of consolidation

a) Methodology

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries on the basis set out in section below. The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the accompanying consolidated financial statements.

For the purposes of the accompanying consolidated financial statements, the subsidiaries are those companies over which the Bank has a controlling power on their operating and financial policies through having more than 50% of the ordinary shares held by the Bank.

The major principles of consolidation are as follows:

- The balance sheets and income statements are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the balance sheets and income statements are eliminated.
- The results of the subsidiaries are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Minority interests in the shareholders' equity and net income of the consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated income statements.
- The assets and liabilities of foreign operations are translated to YTL at exchange rates at the reporting date. The income and expenses of foreign operations are translated to YTL at exchange rates at quarterly average exchange rates. Foreign currency differences are recognised directly in equity as currency translation adjustment.

b) Subsidiaries

The subsidiaries included in the consolidation and their ownership percentages are as follows:

			Effective Shareholding and Voting Rights (%)	
	Place of Incorporation	**Principal Activities**	**31 December 2007**	**31 December 2006**
Anadolu Yatırım	Istanbul / Turkey	Brokerage	82.00	82.00
Anadolubank Offshore	Turkish Republic of Northern Cyprus	Banking	99.40	99.40
Anadolu Leasing	Istanbul / Turkey	Leasing	99.92	99.92
Anadolubank Nederland	Amsterdam / the Netherlands	Banking	100.00	100.00

4. Significant accounting policies

(a) Foreign currency

Foreign currency transactions

Transactions are recorded in YTL, which represents the Group's functional currency except for Anadolubank Offshore and Anadolubank Nederland. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into YTL at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the income statement as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the income statement as realized during the course of the period.

Consolidated financial statements of foreign operations

The functional currencies of the foreign subsidiaries, Anadolubank Offshore and Anadolubank Nederland, are US Dollar and EUR, respectively, and their financial statements are translated to the presentation currency, YTL, for the consolidation purposes, as summarized in the following paragraph.

The assets and liabilities of the foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements of the foreign subsidiaries are translated at quarterly average exchange rates. On consolidation exchange differences arising from the translation of the net investment in foreign subsidiaries are included in equity as currency translation adjustment until the disposal of such subsidiaries.

(b) Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Significant accounting policies *(continued)*

(d) Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss and derivative financial instruments held for trading purpose.

(e) Lease payments made

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(f) Income taxes

i) Corporate tax

Statutory income is subject to corporate tax at 20%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased to 15% from 10%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

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

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

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

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

Significant accounting policies *(continued)*

In Nederland, corporate income tax is levied at the rate of 25.5% (31 December 2006: 29.6%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

ii) Deferred taxes

According to the IAS 12 - *Income Taxes*; deferred tax assets and liabilities are recognized, using the balance sheet method, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

If transactions and events are recorded in the statement of income, then the related tax effects are also recognized in the statement of income. However, if transactions and events are recorded directly in the shareholders' equity, the related tax effects are also recognized directly in the shareholders' equity.

Significant accounting policies *(continued)*

(g) Financial instruments

Classification

Financial instruments designated at fair value through profit or loss are those that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its subsidiaries provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise due from banks and loans and receivables to customers.

Held-to-maturity investment securities are the marketable securities with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt securities.

Recognition

Financial assets designated at fair value through profit or loss are recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity investment securities and loans and receivables are recognized on the day they are originated.

Measurement

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

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

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

Significant accounting policies *(continued)*

***Financial instruments** (continued)*

Fair value measurement principles

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

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

Gains and losses on subsequent measurement

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

Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Specific instruments

Cash and balances with Central Banks: Cash and balances with Central Banks comprise cash balances on hand, cash deposited with Central Banks and other cash items. Money market placements are classified in loans and advances to banks.

Investments: Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investment securities that the Bank and its subsidiaries have the intent and ability to hold to maturity are classified as held-to-maturity investments.

Loans and advances to banks and customers: Loans and advances provided by the Bank and its subsidiaries are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Significant accounting policies *(continued)*

***Financial instruments** (continued)*

Minimum lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Minimum lease receivables are included in loans and receivables.

(h) Property and equipment

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

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the year in the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Years
Buildings and land improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	shorter of the useful life of the asset or the lease term

The carrying values of property and equipment are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

(i) Intangible assets

Intangible assets mainly comprise computer software. Cost associated with developing or maintaining computer software programmes are recognized as an expense as incurred. They are recorded at acquisition cost and amortized on a straight-line basis over their estimated useful lives for a period not exceeding 5 years from the acquisition date. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

Significant accounting policies *(continued)*

(j) Repurchase transactions

The Group enters into purchases/(sales) of investments under agreements to resell/(repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

(k) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific allowance for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivables to their recoverable amounts.

The Group fully reflected all specific provisions in the accompanying consolidated financial statements. The expected cash flows for loans are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

The recoverable amount of debt instruments re-measured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset re-measured to fair value is impaired, the write-down is recognized in the income statement.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(l) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not the assets of the Group.

Significant accounting policies *(continued)*

(m) Reserve for employee severance indemnity

In accordance with existing social legislation, the Group is required to make lump-sum termination indemnity payments to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the accompanying consolidated financial statements, the Group has reflected a liability calculated using actuarial method and discounted by using the current market yield at the balance sheet date on government bonds, in accordance with IAS 19- "Employee Benefits".

The principal actuarial assumptions used at 31 December 2007 and 31 December 2006 are as follows;

	31 December 2007	31 December 2006
Discount rate	5%	6%
Expected rate of salary/limit increase	11%	12%
Turnover rate to estimate the probability of retirement	19.57%	19%

Actuarial gains and losses are recognized in the income statement in the year they occur.

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2007 is YTL 2,030 (full YTL); at 31 December 2006 it was YTL 1,857 (full YTL). The liability is not funded, as there is no funding requirement.

(n) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(o) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

(p) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the balance sheet dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

Significant accounting policies *(continued)*

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- *IFRS 8 Operating Segments* supersedes IAS 14 Segment Reporting. IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 effective for annual financial statements for periods beginning on or after 1 January 2009, is not expected to have impact on the disclosures of the Group.

- *IFRIC 12 Service Concession Arrangements* draws a distinction between two types of service concession arrangement. In one, the operator receives a financial asset, specifically an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset. In the other, the operator receives an intangible asset – a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. IFRIC 12 allows for the possibility that both types of arrangement may exist within a single contract: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset. IFRIC 12, effective for annual periods beginning on or after 1 January 2008, is not expected to have any impact on the financial statements of the Group.

- *IFRIC 13 Customer Loyalty Programmes* addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. IFRIC 13, effective for annual periods beginning on or after 1 January 2008, is not expected to have any impact on the financial statements of the Group.

- *IFRIC 14 - IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;* under IFRIC 14 entities are required to measure any economic benefits available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. IFRIC 14, effective for annual periods beginning on or after 1 January 2008, is not expected to have any impact on the financial statements of the Group.

- *IFRS 3 – Business Combinations & IAS 27 Consolidated and Separate Financial Statements*; the International Accounting Standards Board ("IASB") has completed the second phase of its business combinations project by issuing a revised version of *IFRS 3 Business Combinations* and an amended version of *IAS 27 Consolidated and Separate Financial Statements* which also brings revisions to *IAS 28 Investments in Associates* and *IAS 31 Interest in Joint Ventures*. The new requirements take effect on 1 July 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the financial statements.

Significant accounting policies *(continued)*

New standards and interpretations not yet adopted

- *IAS 32* – Financial Instruments: Presentation; the IASB amended IAS 32 and IAS 1 Presentation of Financial Statements with respect to the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity. Amendments for puttable financial instruments and obligations arising only on liquidation, effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the financial statements of the Group.

5. Segment reporting

Segment information is presented in respect of the Bank and its subsidiaries' geographical and business segments. The primary format, business segments, is based on the Bank and its subsidiaries.

Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

Geographical segments

The Group operates principally in Turkey, but also have operations in the Netherlands and Turkish Republic of Northern Cyprus. As the operation results outside of Turkey are quite negligible in the consolidated results, geographical segment information is not presented.

Business segments

31 December 2007	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Other	Total Operations of Group
Net interests, fees, and commissions income	24,339	106,324	83,955	2,884	12,980	**230,482**
Other operating income and expenses, net	(14,060)	(61,640)	(47,964)	235	(10,914)	**(134,343)**
Profit before taxes	10,279	44,684	35,991	3,119	2,066	**96,139**
Segment assets	281,384	1,466,938	1,258,766	26,227	107,604	**3,140,919**
Investments in associates and subsidiaries	--	--	--	--	--	--
Total Assets	281,384	1,466,938	1,258,766	26,227	107,604	**3,140,919**
Segment liabilities	473,988	1,403,195	594,728	25,301	262,455	**2,759,667**
Shareholders' equity and minority interest	--	--	--	--	--	**381,252**
Total Liabilities	473,988	1,403,195	594,728	25,301	262,455	**3,140,919**
Other segment assets						
Capital expenditures	988	4,336	3,374	308	765	**9,771**
Depreciation and amortization expense	(623)	(2,733)	(2,126)	(194)	(218)	**(5,894)**
Other non-cash income expense	425	4,582	(44,601)	175	3,083	**(36,336)**

6. Cash and cash equivalents

	31 December 2007	31 December 2006
Cash on hand	23,219	19,967
Balances with the Central Bank	314,565	38,701
Cash and balances with the Central Bank	**337,784**	**58,668**
Deposits with banks and other financial institutions	170,872	277,991
Interbank money market placements	110,047	146,286
Total cash and cash equivalents in the balance sheet	**618,703**	**482,945**
Time deposits with original maturities of more than three months	--	(15,836)
Blocked deposits with banks and other financial institutions	(48,448)	(5,927)
Interest accruals on cash and cash equivalents	(2,104)	(750)
Cash and cash equivalents in the statement of cash flows	**568,151**	**460,432**

As of 31 December 2007 and 2006, interest range of deposits and placements are as follows:

	31 December 2007				31 December 2006			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	FC	YTL	FC	YTL	FC	YTL	FC
Balances with the Central Bank	73,814	240,751	11.81-12.93	1.70-1.85	32	38,669	10.30-13.10	1.73-2.52
Deposits with banks and other financial institutions	47	170,825	17.50-17.90	2.82-5.10	149,261	128,730	17.5-19.0	2.00-5.38
Interbank money market placements	110,047	--	15.75	--	--	146,286	--	5.25-5.27
Total	**183,908**	**411,576**			**149,293**	**313,685**		

7. Financial assets designated at fair value through profit or loss

	31 December 2007		31 December 2006	
	Carrying value	Effective Interest Rate (%)	Carrying value	Effective Interest Rate (%)
Debt instruments				
Treasury bills in YTL	4,102	15.94-19.90	94	19.18-20.75
Government bonds in YTL	299	16.21-21.06	25,154	17.67-23.43
Eurobonds issued by the Turkish Government	271	5.50-12.38	165	5.50-12.38
Total financial assets designated at fair value through profit or loss	**4,672**		**25,413**	

Income from debt and other instruments held at fair value is reflected in the consolidated income statement as interest on securities.

As at 31 December 2007 there is no debt instruments given as collateral under repurchase agreements.

As at 31 December 2007, the carrying and the nominal values of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and in Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi (Derivatives Exchange) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 2,237 and YTL 2,017 (31 December 2006: YTL 2,300 and YTL 2,049), respectively.

8. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards and swaps.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period/year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	31 December 2007								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading purpose:									
Forward purchase contract	8,818	--	454,249	428,762	4,743	20,744	--	--	--
Forward sale contract	--	33,431	443,527	419,717	4,895	18,915	--	--	--
Currency swap purchase	1,612	--	549,023	312,021	2,993	16,714	--	55,341	161,954
Currency swap sale	--	14,508	602,022	312,236	3,299	18,426	--	86,611	181,450
Put option purchase	--	--	19,219	19,219	--	--	--	--	--
Put option sale	--	--	19,213	19,213	--	--	--	--	--
Total	**10,430**	**47,939**	**2,087,253**	**1,511,168**	**15,930**	**74,799**	**--**	**141,952**	**343,404**

	31 December 2006								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading purpose:									
Forward purchase contract	378	--	397,105	386,357	8,704	2,044	--	--	--
Forward sale contract	--	183	396,955	386,230	8,709	2,016	--	--	--
Currency swap purchase	413	--	337,677	139,395	102,001	--	--	67,144	29,137
Currency swap sale	--	15,706	351,933	144,757	108,036	--	--	69,140	30,000
Put option purchase	--	--	--	--	--	--	--	--	--
Put option sale	--	--	--	--	--	--	--	--	--
Total	**791**	**15,889**	**1,483,670**	**1,056,739**	**227,450**	**4,060**	**--**	**136,284**	**59,137**

9. Investment securities

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

	31 December 2007	31 December 2006
Held to maturity securities	396,634	651,201
Total investment securities	**396,634**	**651,201**

Held to maturity securities

	31 December 2007		31 December 2006	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments:				
Turkish government bonds	213,270	14.31	357,792	14.31-21.16
Eurobonds issued by Turkish government	36,897	7.08	175,445	7.41-9.34
Foreign currency government bonds	143,691	10.50-11.88	117,964	6.81-7.08
Corporate bonds	2,776	7.82	--	--
Total held to maturity securities	**396,634**		**651,201**	

Carrying value of debt instruments given as collateral under repurchase agreements are:

	31 December 2007	31 December 2006
Held to maturity securities	142,082	148,478

As at 31 December 2007, the carrying and the nominal values of the securities issued by the Turkish Government kept in the Central Bank, Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi (Derivatives Exchange) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 62,445 and YTL 58,560 (31 December 2006: YTL 21,173 and YTL 20,360), respectively.

The Group has also given the eurobonds having carrying value of YTL 36,583 (US Dollar 31,410 thousand) and the domestically issued government bonds having carrying value of YTL 41,913 (31 December 2006: eurobonds having carrying value of YTL 77,026-(US Dollar 54,509 thousand)) with a face value of US Dollar 30,572 thousand and YTL 39,305, respectively as collateral to Morgan Stanley Bank International Limited for the funds provided amounting to YTL 60,000. As at 31 December 2006 the government bonds given as collateral to the Standard Bank Plc London for the funds provided amounting to US Dollar 20,000 thousand with carrying value amounting to YTL 37,210, are kept at Standart Yatırım Menkul Kıymetler Anonim Şirketi.

The Bank has reclassed the securities from available for sale securities to held to maturity securities with the fair value of YTL 346,286 at the transfer date in accordance with the decision of Board of Directors dated 8 May 2006. The previous loss of YTL 10,344, net off deferred tax that has been recognized directly in equity has been accounted to be amortized to the income statement over the remaining life of the transferred securities using the effective interest method.

The Bank has also reclassified certain security investments, previously classified in its securities available-for-sale portfolio, amounting to YTL 263,271 to its securities held-to-maturity portfolio. Such securities are included in the securities held-to-maturity portfolio above at their fair values of YTL 265,420 as of their reclassification dates. The value increases of such securities amounting YTL 2,149 are recorded under the shareholders' equity and amortized through the income statement up to their maturities as earned.

10. Loans and receivables

	31 December 2007						
	Amount				Effective Interest Rate (%)		
	YTL	Foreign Currency	Foreign Currency Indexed	Total	YTL	Foreign currency	Foreign Currency Indexed
Minimum lease receivables	14,162	49,643	--	63,805	15.70-28.07	6.61-13.61	--
Corporate loans	1,065,131	260,975	203,201	1,529,307	20.40-33.25	3.25-10.00	4.50-10.25
Consumer loans	233,662	--	46,712	280,374	18.84-28.80	--	3.00-9.50
Credit cards	30,615	15	--	30,630	66.60	--	--
Total loans	**1,343,570**	**310,633**	**249,913**	**1,904,116**			
Non performing loans				29,065			
Less: Reserve for possible loan losses				(29,065)			
				1,904,116			

	31 December 2006						
	Amount				Effective Interest Rate (%)		
	YTL	FC	FC Indexed	Total	YTL	FC	FC Indexed
Minimum lease receivables	4,833	24,624	--	29,457	11.73-25.14	9.63-11.70	--
Corporate loans	813,824	286,244	172,519	1,272,587	20.00-31.00	3.92-10.50	5.10-10.80
Consumer loans	138,379	--	14,114	152,493	18.44-26.28	--	3.60-12.60
Credit cards	31,879	--	--	31,879	67.44	--	--
Total loans	**988,915**	**310,868**	**186,633**	**1,486,416**			
Loans in arrears				18,619			
Less: Reserve for possible loan losses				(18,619)			
				1,486,416			

The specific allowance for possible loan losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the reserve for possible loan losses:

	31 December 2007	31 December 2006
Reserve at beginning of the year	18,619	15,885
Provision for possible loan losses	13,489	8,621
Recoveries	(2,869)	(4,476)
Provision, net of recoveries	10,620	4,145
Loans written off during the year	(174)	(1,411)
Reserve at end of the year	**29,065**	**18,619**

11. Minimum lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following financial lease receivables:

	31 December 2007	31 December 2006
Financial lease receivables, net of unearned incomes	63,805	29,457
Add: non-performing lease receivables	96	--
Less: allowance for possible losses on lease receivables	(96)	--
Finance lease receivables, net	**63,805**	**29,457**

	31 December 2007	31 December 2006
Due within one year	36,543	14,806
Due between 1 and 5 years	36,514	19,261
Financial lease receivables, gross	73,057	34,067
Unearned income	(9,252)	(4,610)
Finance lease receivables, net	**63,805**	**29,457**
Due within one year	30,562	11,994
Due between 1 and 5 years	33,243	17,463
Finance lease receivables, net	**63,805**	**29,457**

12. Property and equipment

Movement in tangible assets as of and for the period ended 31 December 2007 and 2006 are as follows:

	31 December 2006	Additions	Disposals	31 December 2007
Cost:				
Buildings	4,742	--	--	4,742
Motor vehicles	3,678	2,372	80	5,970
Furniture, office equipment and leasehold improvements	48,483	6,939	73	55,349
	56,903	**9,311**	**153**	**66,061**
Accumulated Depreciation:				
Buildings	776	95	--	871
Motor vehicles	2,384	618	80	2,922
Furniture, office equipment and leasehold improvements	36,782	4,008	58	40,732
	39,942	**4,721**	**138**	**44,525**
Net Book Value	**16,961**			**21,536**

	31 December 2005	Additions	Disposals	31 December 2006
Cost :				
Buildings	4,742	--	--	4,742
Motor vehicles	3,470	239	(31)	3,678
Furniture, office equipment and leasehold improvements	45,282	3,218	(17)	48,483
	53,494	**3,457**	**(48)**	**56,903**
Accumulated Depreciation:				
Buildings	681	95	--	776
Motor vehicles	1,903	491	(10)	2,384
Furniture, office equipment and leasehold improvements	33,140	3,648	(6)	36,782
	35,724	**4,234**	**(16)**	**39,942**
Net Book Value	**17,770**			**16,961**

As of 31 December 2007, the cost of fully depreciated property and equipment are still in active use amounting to YTL 36,807 (31 December 2006: YTL 33,667).

As of 31 December 2007, tangible assets were insured to the extent of YTL 47,972 (31 December 2006: YTL 37,681) in total.

13. Intangible assets

Movement in intangible assets as of and for the period ended 31 December 2007 and 2006 are as follows:

	31 December 2006	Additions	Disposals	31 December 2007
Cost:				
Software	9,915	460	--	10,375
Other intangibles	1,381	--	--	1,381
	11,296	**460**	--	**11,756**
Accumulated Amortization :				
Software	7,155	1,125	--	8,280
Other intangibles	1,322	48	--	1,370
	8,477	**1,173**	--	**9,650**
Net Book Value	**2,819**			**2,106**

	31 December 2005	Additions	Disposals	31 December 2006
Cost:				
Software	8,892	1,023	--	9,915
Other intangibles	1,381	--	--	1,381
	10,273	**1,023**	--	**11,296**
Accumulated Amortization:				
Software	6,105	1,050	--	7,155
Other intangibles	1,322	--	--	1,322
	7,427	**1,050**		**8,477**
Net Book Value	**2,846**			**2,819**

14. Other assets

	31 December 2007	31 December 2006
Reserve Deposits	94,247	178,468
Transfer Cheques	65,857	--
Income Accruals	4,963	257
Due from credit cards	1,724	1,343
Advances given	1,451	39
Prepaid expenses	938	2,549
Assets held for resale	395	292
Prepaid Taxes	73	401
Others	8,121	3,648
Total	**177,769**	**186,997**

At 31 December 2007, reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its subsidiaries. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for YTL and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. The interest rates given by the Central Bank of Turkey are 11.81% for YTL, 1.95% for US Dollar and 1.80% for Euro as of 31 December2007.

Assets held for resale obtained from loan customers are stated at restated cost less any impairment in value identified by the valuation reports made by independent appraisal firms.

15. Deposits

Deposits from other banks

	31 December 2007				31 December 2006			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	FC	YTL	FC	YTL	FC	YTL	FC
Demand	22	479	--	--	46	87	--	--
Time	241	999	16.50	3.00-5.00	284	37,039	17.00-19.00	5.25-5.75
Total	**263**	**1,478**			**330**	**37,126**		

Customers' deposits

	31 December 2007				31 December 2006			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	FC	YTL	FC	YTL	FC	YTL	FC
Saving:								
Demand	26,016	47,442	--	--	17,227	59,988	--	--
Time	791,897	684,888	12.75-18.90	2.50-6.00	661,994	558,508	12.50-21.25	1.00-6.50
	817,913	**732,330**			**679,221**	**618,496**		
Commercial and other deposits:								
Demand	68,725	59,972	--	--	52,647	79,301	--	--
Time	101,903	128,493	14.75-18.50	2.50-6.00	70,092	200,666	12.75-21.25	2.75-5.90
	170,628	**188,465**			**122,739**	**279,967**		
Total	**988,541**	**920,795**			**801,960**	**898,463**		

Other money market deposits

	31 December 2007				31 December 2006			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	FC	YTL	FC	YTL	FC	YTL	FC
Obligations under repurchase agreements:								
-Due to customers	--	--	--	--	--	--	--	--
-Due to banks	8,050	125,147	17.15-18.80	4.47-4.81	89,238	37,192	17.85-18.35	5.58-6.31
Total	**8,050**	**125,147**			**89,238**	**37,192**		

16. Funds borrowed

	31 December 2007				31 December 2006			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	FC	YTL	FC	YTL	FC	YTL	FC
Short-term	11,710	137,471	13.00-22.65	1.44-6.43	12,544	451,345	11.00-22.00	3.52-6.67
Medium/long term	71,951	297,534	12.46	5.26-6.93	66,907	93,127	12.45	4.60-7.01
Total	**83,661**	**435,005**			**79,451**	**544,472**		

On 19 April 2007, the Bank has obtained YTL 174,705 (YTL equivalent of USD 150,000,000) syndication loan with a maturity of one year with the interest rate on such loan is Libor+0.40%.

Repayment plans of medium/long term borrowings are as follows:

	31 December 2007	31 December 2006
2007	--	51,856
2008	359,361	100,944
2009	2,465	--
2010	1,696	--
2011	5,963	7,234
Total	**369,485**	**160,034**

17. Other liabilities and provisions

	31 December 2007	31 December 2006
Transfer orders	98,270	9,752
Taxes other than on income	9,277	8,350
Other various accruals	4,694	4,562
Provision for retirement pay liability and liability for unused vacations	4,609	3,731
Cash collaterals and blockages	1,027	1,559
Others	25,547	7,134
Total	**143,424**	**35,088**

The movement in provision for retirement pay liability and for liability for unused vacations is as follows:

	31 December 2007	31 December 2006
Total provision at the beginning of the year	3,731	1,182
Increase during the year	878	2,549
Total provision at the end of the year	**4,609**	**3,731**

18. Income taxes

Major components of income tax expense:

	31 December 2007	31 December 2006
Current income taxes:		
Current income tax charge	26,840	8,047
Deferred taxes:		
Relating to origination and reversal of temporary differences	(7,381)	9,487
Income tax provision	**19,459**	**17,534**

The current income tax charges and prepaid taxes are detailed below:

	31 December 2007	31 December 2006
Current income tax charge	26,840	8,047
Prepaid taxes	(21,547)	(2,252)
Income taxes payable	**5,293**	**5,795**

As at 31 December 2007 and 2006, deferred tax assets and liabilities are as follows:

	31 December 2007		31 December 2006	
	Deferred tax Assets/ (Liabilities)		Deferred tax Assets/ (Liabilities)	
Deferred taxes:				
Valuation difference of derivative instruments		7,466		2,997
Provision for Retirement pay liability and Unused Vacation		922		725
Performance premium accrual		316		427
Valuation differences of property and equipment and intangibles		(221)		273
Provision for credit card awards		107		107
Provision for legal cases		52		52
Differences in securities valuation		(3,751)		(6,996)
Others		(9)		21
Total deferred tax assets/(liabilities)	**8,863**	**(3,981)**	**4,602**	**(6,996)**
Offsetting	(3,910)	3,910	(4,602)	4,602
Deferred tax assets/(liabilities)	**4,953**	**(71)**	**--**	**(2,394)**

Income taxes *(continued)*

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

	31 December 2007	Tax rate (%)	31 December 2006	Tax rate (%)
Net profit from ordinary activities before income tax and minority interest	**96,139**		**66,920**	
Taxes on income per statutory tax rate	19,228	20.00	13,384	20.00
Tax rate change	--	--	1,790	2.68
Disallowable expenses	75	0.07	841	1.26
Effect of income not subject to tax	(72)	(0.07)	(82)	(0.12)
Effect of restatement and others, net	228	0.24	1,601	2.44
Provision for taxes on income	**19,459**	**20.24**	**17,534**	**26.26**

19. Shareholders' equity

Share capital

	31 December 2007	31 December 2006
Number of common shares, YTL 0.001 (in full YTL), par value Authorized, issued and outstanding 225,000 millions;	225,000	225,000

The authorized nominal share capital of the Bank amounted to YTL 225,000 thousands as at 31 December 2007 and 2006. As per the resolution of the Board of Directors on 30 October 2006, it was decided to increase the Bank's statutory share capital from YTL 66,000 thousands to YTL 225,000 thousands by cash contribution amounting to YTL 55,000 and through appropriation of capital reserves from inflation adjustments to paid in capital of YTL 32,357, legal reserves and accumulated profits of YTL 71,643. The increase was registered on 29 December 2006.

As of 31 December 2007 and 31 December 2006, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	152,714	67.87	152,714	67.87
Mehmet Rüştü Başaran	65,799	29.24	65,799	29.24
Other shareholders	6,487	2.89	6,487	2.89
Historical amount	225,000	100.00	225,000	100.00
Restatement effect	2,619		2,619	
Total	**227,619**		**227,619**	

Shareholders' equity *(continued)*

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of 31 December 2007, the Group's legal reserves, which were included within the other reserves and accumulated profit balance amount to YTL 7,517 (31 December 2006: YTL 5,117).

Minority interest

As at 31 December 2007 net minority interest amounts to YTL 1,317 (31 December 2006: YTL 1,099). Minority interest is detailed as follows:

	31 December 2007	31 December 2006
Capital and other reserves	979	798
Accumulated profits	115	237
Current year net income	223	64
Total	**1,317**	**1,099**

Revaluation of available-for-sale assets

Revaluation of available-for-sale assets is detailed as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the year	(6,928)	25,411
Net gains/(losses) from changes in fair value	--	(35,080)
Related deferred and current income taxes	--	9,446
Net (gains)/losses transferred to the income statement on amortization	40	(9,881)
Related deferred and current income taxes	(3)	3,176
Balance at the end of the year	**(6,891)**	**(6,928)**

20. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 67.87% (31 December 2006: 67.87%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

Outstanding balances

	31 December 2007	31 December 2006
Cash loans	31,634	14,348
Non-cash loans	20,510	24,725
Deposits taken	93,964	69,748
Notional amount of derivative transactions	26,013	20,667

Transactions

	31 December 2007	31 December 2006
Interest income	2,303	1,326
Interest expense	537	818
Other operating income	2	4
Other operating expense	1,433	1,326
Income from derivatives	(137)	1,269

Directors' Remuneration

The key management (nine executives including the general manager) and the members of the Board of Directors received remuneration and fees amounting to YTL 4,466 for the year ended 31 December 2007 (31 December 2006: YTL 3,972).

21. Salaries and employee benefits

	31 December 2007	31 December 2006
Staff costs		
Wages and salaries	58,084	44,637
Cost of defined contribution plan (employer's share of social security premiums)	9,805	7,256
Other fringe benefits	9,132	5,984
Provision for employee termination benefits and liability for unused vacations	878	2,549
Total	**77,899**	**60,426**

The average number of employees during the period is:

	31 December 2007	31 December 2006
The Bank	1,724	1,331
Subsidiaries	47	57
Total	**1,771**	**1,388**

22. Other expenses

	31 December 2007	31 December 2006
Operating lease charges	9,180	8,479
Communication expenses	4,594	2,839
Saving Deposit Insurance Fund premium	2,631	2,613
Transportation expenses	2,278	1,720
Other provisions	1,722	504
Advertising expenses	1,390	1,788
Cleaning service expense	1,255	975
Hosting cost	1,260	917
Energy costs	1,158	987
Maintenance expenses	1,115	822
Office supplies	1,073	827
POS service expenses	908	711
Chartered accountants	686	537
Disallowable expenses	672	471
BRSA participation fee	413	486
Expertise expenses	320	175
Credit card service expense	248	364
Raw credit card expenses	118	477
Various administrative expenses	4,187	5,922
Total	**35,208**	**31,614**

23. Commitment and contingencies

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	31December 2007	31 December 2006
Letters of guarantee	699,026	724,863
Letters of credit	225,817	274,306
Acceptance credits	13,871	17,427
Other guarantees	117,451	205,772
Total non-cash loans	**1,056,165**	**1,222,368**
Credit card limit commitments	197,295	173,157
Other commitments	257,546	208,764
Total	**1,511,006**	**1,604,289**

Litigations

a) The Bank

i) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of US Dollar 14,750,000 plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management does not consider that there will be any probable loss.

USD Dollar 14,750,000 that was transferred to the account of a client of the Parent Company Bank by Citibank AŞ (former name as Citibank N.A.) was paid to the related company by the Parent Company Bank. Citibank AŞ demanded refundment of the money, however since the money was paid to the related company and could not be returned, a lawsuit was filed against the Parent Company Bank. Court decision about the lawsuit that was filed by Citibank AŞ was cancelled. In addition, claim for indemnity at amount of 11,500,000 USD was cancelled. However, later the court decision was taken to state the insurance companies, that made the related payment, as intervening parties. Court expert reported that the Bank has not responsibility in these claims. As at reporting date, the lawsuits continue as follows; with Citibank AŞ at amount of 3,250,000 USD and with insurance companies at amount of 11,500,000 USD.

ii) The decision about the temporarily abortion of the capital market operations of Anadolu Yatırım, related with the transfers from another intermediary institution to Anadolu Yatırım and between sub accounts of Anadolu Yatırım was published on the weekly bulletin with number 2003/11 and date 7 March 2007 of the Capital Markets Board on year 2003. The abortion of operations would be starting from 7 March 2003 and continue till the audit work that was conducted for two companies to determine the legal relations between the actual right owners and the transfers ends in accordance with the (g) and (h) articles of 1. clause of 46. paragraph of the Capital Markets Board.

Commitment and contingencies *(continued)*

Following this, it was decided that Anadolu Yatırım, whose operations was aborted temporarily on 7 March 2003 in accordance with the declaration of the Capital Markets Board on date 13 March 2003 with number DEDA-/-10/180-2905 on the meeting of the Commission Ruling Agency on 13 March 2003, could start to operate in capital markets starting from 13 March 2003 since there is not an obstacle in the financial position of Anadolu Yatırım to operate in the capital markets. With reference to the related situation, a preliminary injunction lawsuit at amount of 2,768-YTL was filed against the Bank, Anadolu Yatırım and a person by Investor Protection Fund by proxy of related intermediary institution with the demand of taking back the share certificates and all income returns, which belongs to the clients of the intermediary institution and sold off with lack of will while being under the possession of the related intermediary company and are sold off by lack of will and relevant to prevent to be given to third parties till to the end of the court. The Parent Company Bank is a party on this court and the Bank management recorded the provision at a rate of 100 % for the uncollected amount in 2003 that is given as loan to the related intermediary institution. Provided that the court is closed on behalf of the Bank, the share certificates that are mentioned above and belong to the clients of the related intermediary institution will be taken into the portfolio of the Bank and will be recorded revenue at the amount of the share certificates. There is no judgement at law of the related lawsuit.

iii) In addition to the above mentioned cases, there are 49 other law cases opened against the Bank, claims of which in total amount to YTL 4,328. At 31 December 2007, the Bank management recorded the provision amounting to YTL 259 for such cases.

b) <u>The Subsidiaries</u>

There are 3 law cases opened against Anadolu Yatırım, claims of which in total amount to YTL YTL 1,809. As of 31 December 2007, a provision of YTL 2 is recorded for such cases.

Commitments Under Operating Leases

As of 31 December 2007 and 2006, future minimum rentals payable under non cancellable operating leases are as follows:

	31 December 2007	31 December 2006
Within one year	5,582	5,976
After one year but not more than five years	10,920	7,659
Total	**16,502**	**13,635**

24. Financial risk management

(a) Introduction and overview

This note presents information about the Group's exposure to each of the below risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the auditing committee. Consequently, the Risk Management Department, which carries out the risk management activities and works independently from executive activities, report directly to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 to 31 of the Banking Law No. 5411 and the Articles 36 to 42 of Regulation on Internal Systems within the Banks, dated 1 November 2006, the Bank revised the current written policies and implementation procedures regarding management of each risk encountered in its activities in February 2007.

Auditing Committee: The Auditing Committee consists of two members of the Board of Directors who do not have any executive functions. The Auditing Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

Financial risk management *(continued)*

(b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

Exposure to credit risk

	Loans and advances to customers		Other assets	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Individually impaired	29,065	18,619	--	--
Allowance for impairment	29,065	18,619	--	--
Carrying amount	--	--	--	--
Collectively impaired	--	--	--	--
Allowance for impairment	--	--	--	--
Carrying amount	--	--	--	--
Past due but not impaired	59,614	19,209	--	--
Carrying amount	**59,614**	**19,209**	--	--
Neither past due nor impaired	1,841,977	1,464,150	--	--
Loans with renegotiated terms	2,525	3,057	--	--
Carrying amount	**1,844,502**	**1,467,207**	--	--
Total carrying amount	**1,904,116**	**1,486,416**	--	--

As of 31 December 2007 and 31 December 2006, the Group has no allowance for loans and advances to banks and investment securities.

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 6 to 8 in the Group's internal credit risk grading system.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Financial risk management *(continued)*

Credit risk *(continued)*

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Cash loans		Other assets	
31 December 2007	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Grade 6 : Individually Impaired	4,417	--	18	--
Grade 7 : Individually Impaired	6,300	--	272	--
Grade 8 : Individually Impaired	17,173	--	885	--
Total	**27,890**	--	**1,175**	--

	Cash loans		Other assets	
31 December 2006	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Grade 6 : Individually Impaired	2,558	--	9	--
Grade 7 : Individually Impaired	1,335	--	-	--
Grade 8 : Individually Impaired	13,707	--	1,010	--
Total	**17,600**	--	**1,019**	--

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

Financial risk management *(continued)*

Credit risk *(continued)*

Collateral policy

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

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

Cash loans	**31 December 2007**	**31 December 2006**
Secured loans:		
Secured by cash collateral	60,974	58,485
Secured by mortgages	313,687	174,221
Secured by government institutions or government securities	412	880
Guarantees issued by financial institutions	101	267
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,257,544	1,045,857
Unsecured loans	207,593	177,249
Total performing loans and receivables	**1,840,311**	**1,456,959**

The Group also has collateral (mortgage, letter of guarantee, and others) amounting to YTL 82,830 (31 December 2006: YTL 41,134) against its finance lease receivables amounting to YTL 63,805 (31 December 2006: YTL 29,457).

Financial risk management *(continued)*

Credit risk *(continued)*

Non-cash loans	31 December 2007	31 December 2006
Secured loans:		
Secured by mortgages	28,087	36,714
Guarantees issued by financial institutions	34,350	27,360
Secured by cash collateral	657	1,097
Secured by government institutions or government securities	44	122
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	777,121	943,264
Unsecured loans	215,906	213,811
Total non-cash loans	**1,056,165**	**1,222,368**

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

	31 December 2007	31 December 2006
Cash collateral (*)	--	--
Unsecured	17,242	6,729
Marketable Securities	3,884	3,861
Promissory notes (*)	--	1
Mortgages	4,953	4,952
Pledge on automobile	712	710
Corporate and personal guarantees	2,274	2,366
Total	**29,065**	**18,619**

(*) As a Group policy, it is aimed to utilize from cash collateral or liquidate promissory note for an impaired loan which is previously collateralized by cash collateral or promissory note to cover the credit risk. Hence, cash collateral and promissory note are shown as zero in the table above.

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans and lease receivables is shown below:

	31 December 2007	31 December 2006
Construction	2,458	1,569
Food	1,420	800
Textile	4,851	3,086
Service sector	213	137
Durable consumption	5,284	1,501
Metal and metal products	280	179
Consumer loans	956	617
Agriculture and stockbreeding	855	417
Other	12,748	10,313
Total non-performing loans and lease receivables	**29,065**	**18,619**

Financial risk management *(continued)*

Credit risk *(continued)*

	31 December 2007	31 December 2006
Turkey	28,834	18,253
United States of America	231	366
Total non-performing loans and lease receivables	**29,065**	**18,619**

Sectoral break down of cash and non-cash loans is as follows:

	31 December 2007				31 December 2006			
	Cash	Cash (%)	Non-cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Non-bank financial institutions	88,677	4.7	92,529	8.8	117,800	7.9	117,373	9.6
Banks	5,318	0.3	9,311	0.9	--	--	9,500	0.8
Domestic trade	292,986	15.4	98,222	9.3	164,526	11.1	162,813	13.3
Metal and mining	19,842	1.0	24,725	2.3	104,720	7.0	83,170	6.8
Textiles	188,352	9.9	63,394	6.0	145,908	9.8	105,063	8.6
Food	115,629	6.1	45,384	4.3	96,821	6.5	74,434	6.1
Consumer loans	303,005	15.9	--	--	194,671	13.1	--	--
Chemical	117,726	6.2	71,064	6.7	113,933	7.7	78,268	6.4
Iron & steel	228,953	12.0	180,882	17.1	117,014	7.9	111,249	9.1
Construction	74,527	3.9	138,453	13.1	86,318	5.8	145,187	11.9
Agriculture	105,100	5.5	22,968	2.2	72,849	4.9	23,228	1.9
Service	98,175	5.2	57,035	5.4	81,399	5.5	74,023	6.1
Export	32,120	1.7	23,034	2.2	42,465	2.9	32,379	2.6
Automotive	79,124	4.2	63,980	6.1	31,627	2.1	37,382	3.1
Electronics	52,938	2.8	71,344	6.8	21,619	1.5	73,956	6.1
Other	101,644	5.2	93,840	8.8	94,746	6.3	94,343	7.6
Total	**1,904,116**	**100.0**	**1,056,165**	**100.0**	**1,486,416**	**100.0**	**1,222,368**	**100.0**

Financial risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Management of liquidity risk

The Bank management is very conservative on maintaining an acceptable level of immediately available funds on hand both in YTL as well as in foreign currencies. The level that the Bank management feels comfortable is around 10% of the balance sheet size. The Treasury department is responsible for keeping either cash on hand or liquid assets that could be exchanged into cash immediately by making use of instruments in financial markets in consideration of cash outflows within next two weeks.

To mitigate the liquidity risk, the Group diversifies funding sources and assets are managed with liquidity in mind, maintaining balance of cash and cash equivalents.

Within the risk management framework, the Treasury Department manages the liquidity position of the Bank and the liquidity ratios are monitored closely by the top management of the Bank. In order to manage the liquidity risk, Treasury Department receives information from other business departments and regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department maintains a portfolio of short-term liquid assets, short-term loans and placements to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department prepared daily reports cover the liquidity position of both the Bank and its subsidiaries. All liquidity policies and procedures are subject to review and approval of ALCO.

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007.

Residual contractual maturities of financial liabilities

31 December 2007	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	1,741	1,748	501	1,247	--	--	--	--
Deposits from customers	1,909,336	1,923,497	202,155	1,216,629	468,460	36,253	--	--
Obligations under repurchase agreements	133,197	133,580	--	76,781	56,799	--	--	--
Funds borrowed	518,666	530,292	--	83,758	58,201	383,924	4,409	--
Other liabilities and provisions	135,269	135,269	--	124,584	10,243	442	--	--
Income taxes payable	5,293	5,293	--	--	5,293	--	--	--
Total	**2,703,502**	**2,729,679**	**202,656**	**1,502,999**	**598,996**	**420,619**	**4,409**	**--**

Financial risk management *(continued)*

Liquidity risk *(continued)*

31 December 2006	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	37,456	37,495	133	37,362	--	--	--	--
Deposits from customers	1,700,423	1,711,513	209,326	1,245,333	230,867	25,754	233	--
Obligations under repurchase agreements	126,430	126,922	--	109,782	17,140	--	--	--
Funds borrowed	623,923	648,039	--	16,018	17,905	503,176	110,940	--
Other liabilities and provisions	27,594	27,594	--	14,623	11,171	1,800	--	--
Income taxes payable	5,795	5,795	--	--	5,795	--	--	--
Total	**2,521,621**	**2,557,358**	**209,459**	**1,423,118**	**282,878**	**530,730**	**111,173**	**--**

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

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based mainly on Monte Carlo simulation. Taking account of market data from the previous 252 days, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios and stress tests for market price movements. The VaR model used is based on and Monte Carlo simulation with using with Nelson Siegel method for yield curve and GARCH method for volatility. The VaR analysis of the Bank are not reported outside and used only by the top management.

Financial risk management *(continued)*

Market risk *(continued)*

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

	31 December 2007			31 December 2006		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rates risk	6,409	6,945	4,080	10,011	23,426	2,772
Common share risk	--	--	--	8	22	--
Currency risk	1,839	5,218	315	1,381	2,646	1,081
Option risk	--	--	--	--	--	--
Total value at risk (12.5 times)	**103,100**	**152,038**	**54,938**	**142,500**	**326,175**	**48,163**

Exposure to interest rate risk – non-trading portfolios

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

31 December 2007	Less than one month	1-3 months	3-6 months	6 months to 1 year	Over 1 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	314,565	--	--	--	--	23,219	337,784
Loans and advances to banks	273,869	426	2,631	--	--	3,993	280,919
Loans and advances to customers	551,313	779,777	197,484	118,117	257,425	--	1,904,116
Investment securities	2,449	36,897	--	216,046	141,242	--	396,634
Other assets	104,511	4,225	80	112	44	68,797	177,769
Total assets	**1,246,707**	**821,325**	**200,195**	**334,275**	**398,711**	**96,009**	**3,097,222**
Deposits from banks	1,240	--	--	--	--	501	1,741
Deposits from customers	1,216,376	455,697	35,108	--	--	202,155	1,909,336
Obligations under repurchase agreements	76,706	56,491	--	--	--	--	133,197
Funds borrowed	83,083	57,647	373,768	4,168	--	--	518,666
Other liabilities and provisions	966	4,454	--	--	--	129,849	135,269
Income tax payables	--	--	--	--	--	5,293	5,293
Total liabilities	**1,378,371**	**574,289**	**408,876**	**4,168**	**--**	**337,798**	**2,703,502**
Net	**(131,664)**	**247,036**	**(208,681)**	**330,107**	**398,711**	**(241,789)**	**393,720**

Financial risk management *(continued)*

Market risk *(continued)*

31 December 2006	Less than one month	1-3 months	3-12 months	1 -5 years	Over 1 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	38,750	--	--	--	--	19,918	58,668
Loans and advances to banks	397,082	19,872	--	--	--	7,323	424,277
Loans and advances to customers	792,707	201,512	235,905	195,303	60,989	--	1,486,416
Investment securities	--	--	262,053	148,521	240,627	--	651,201
Other assets	180,816	4,686	26	--	--	1,469	186,997
Total assets	**1,409,355**	**226,070**	**497,984**	**343,824**	**301,616**	**28,710**	**2,807,559**
Deposits from banks	37,323	--	--	--	--	133	37,456
Deposits from customers	1,239,379	226,686	24,832	200	--	209,326	1,700,423
Obligations under repurchase agreements	109,346	17,084	--	--	--	--	126,430
Funds borrowed	15,741	17,641	490,467	100,074	--	--	623,923
Other liabilities and provisions	39	138	--	--	--	27,417	27,594
Income tax payables	--	--	--	--	--	5,795	5,795
Total liabilities	**1,401,828**	**261,549**	**515,299**	**100,274**	**--**	**242,671**	**2,521,621**
Net	**7,527**	**(35,479)**	**(17,315)**	**243,550**	**301,616**	**(213,961)**	**285,938**

The following table indicates the effective interest rates by major currencies for the major balance sheet components for 2007 and 2006:

31 December 2007	EUR %	US Dollar %	Other currencies %	YTL %
Cash and balances with Central Bank	1.77	2.41	--	12.99
Loans and advances to banks	4.08	4.77	--	15.75
Loans and advances to customers	5.76	6.88	4.00	22.53
Investment securities	--	8.78	--	14.31
Deposits from banks	3.00	5.49	--	16.41
Deposits from customers	3.88	5.26	2.41	17.66
Obligations under repurchase agreements	--	3.88	--	17.45
Funds borrowed	5.28	5.39	1.63	12.83

31 December 2006	EUR %	US Dollar %	Other currencies %	YTL %
Cash and balances with Central Bank	1.65	2.53	--	13.12
Loans and advances to banks	3.59	5.32	--	18.13
Loans and advances to customers	6.56	7.14	--	20.33
Investment securities	--	7.86	--	15.83
Deposits from banks	--	5.34	--	17.94
Deposits from customers	2.99	4.40	--	17.95
Obligations under repurchase agreements	--	5.91	--	17.92
Funds borrowed	4.38	5.80	--	12.82

Financial risk management *(continued)*

Market risk *(continued)*

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2006.

The following tables also include the sensitivity of trading portfolio of the Group.

	Profit or loss		Equity (*)	
31 December 2007	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Floating rate financial assets	10,528	(10,528)	10,528	(10,528)
Floating rate financial liabilities	(1,805)	1,805	(1,805)	1,805
Total, net	**8,723**	**(8,723)**	**8,723**	**(8,723)**

	Profit or loss		Equity (*)	
31 December 2006	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Floating rate financial assets	8,393	(8,393)	8,393	(8,393)
Floating rate financial liabilities	(3,788)	3,788	(3,788)	3,788
Total, net	**4,595**	**(4,595)**	**4,595**	**(4,595)**

(*) Equity effect also includes profit or loss effect of 100 bp increase or decrease in interest rates.

Exposure to interest rate risk – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Treasury Department and equity price risk is subject to regular monitoring by Risk Management Department, but is not currently significant in relation to the overall results and financial position of the Group.

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in the income statement except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into YTL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2007, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

Financial risk management *(continued)*

Market risk *(continued)*

	US Dollar	Euro	Japanese Yen	Others	Total
As at 31 December 2007					
Assets					
Cash and balances with the Central Bank	6,960	5,690	33	422	13,105
Deposits with banks and other financial institutions	137,187	33,036	275	327	170,825
Reserve deposits at the Central Bank	221,522	19,229	--	--	240,751
Financial assets at fair value through profit or loss	1,736	64	--	--	1,800
Investment securities	183,364	--	--	--	183,364
Loans and receivables	305,782	209,740	27,179	17,845	560,546
Derivative financial instruments	5,226	--	--	--	5,226
Other assets	43,851	59,081	--	--	102,932
Total assets	**905,628**	**326,840**	**27,487**	**18,594**	**1,278,549**
Liabilities					
Deposits from other banks	1,441	37	--	--	1,478
Customers' deposits	687,093	230,984	38	2,680	920,795
Other money market deposits	125,147	--	--	--	125,147
Funds borrowed	398,253	35,380	1,372	--	435,005
Derivative financial instruments	--	--	--	1,060	1,060
Other liabilities and provisions	6,222	7,761	1	70	14,054
Total liabilities	**1,218,156**	**274,162**	**1,411**	**3,810**	**1,497,539**
Net on-balance sheet position	**(312,528)**	**52,678**	**26,076**	**14,784**	**(218,990)**
Off-balance sheet position					
Net notional amount of derivatives	326,117	(56,729)	(31,974)	(17,366)	220,048
Non- cash loans	339,318	166,548	814	1,850	508,530
As at 31 December 2006					
Total assets	953,803	271,143	72	1,155	1,226,173
Total liabilities	1,230,558	286,118	54	3,546	1,520,276
Net on balance sheet position	(276,755)	(14,975)	18	(2,391)	(294,103)
Net notional amount of derivatives	281,138	24,292	(530)	(11,594)	293,306
Non-cash loans	408,835	281,448	4,154	1,656	696,093

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

Exposure to currency risk

A 10 percent devaluation of the YTL against the following currencies as at 31 December 2007 and 2006 would have increased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2007		31 December 2006	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	2,125	2,518	186	(368)
EUR	(2,927)	(452)	(178)	(260)
Other currencies	(578)	(578)	(1,450)	(1,450)
Total, net	**(1,380)**	**1,488**	**(1,442)**	**(2,078)**

(*) Equity effect also includes profit or loss effect of 10% devaluation of YTL against related currencies.

Financial risk management *(continued)*

Market risk *(continued)*

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, during financial crisis, judgment is necessary requirement to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market during crisis. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and security investments. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of security investments is YTL 392,833 (31 December 2006: YTL 629,566), whereas the carrying amount is YTL 396,634 (31 December 2006: YTL 651,201) in the accompanying consolidated balance sheet as at 31 December 2007.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data and amount of operational losses, the Bank exposed to during the it's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Auditing Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years 2004, 2005 and 2006. The amount calculated as YTL 23,612 as of 31 December 2007 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk is amounting to YTL 295,150.

Financial risk management *(continued)*

(f) Capital management – regulatory capital

Banking Regulation and Supervision Agency ("BRSA"), the regulator body of the banking industry sets and monitors capital requirements for the Bank and Turkish Republic of Northern Cyprus. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of capital adequacy ratio based on consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement as of 31 December 2007 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the year.

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 31 December 2007 and 31 December 2006 was as follows:

	31 December 2007	31 December 2006
Tier 1 capital	373,497	302,302
Tier 2 capital	7,398	6,159
Deductions from capital	(9,124)	(10,486)
Total regulatory capital	371,771	297,975
Risk-weighted assets	2,238,727	1,891,923
Value at market risk	109,013	48,163
Operational risk (*)	295,150	--
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.07%	15.36%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	13.79%	15.04%

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

25. Other events

The Bank's management has decided to implement growth target in credit card business with brand sharing with an existing brand in the market and decided to collaborate with Yapı ve Kredi Bankası AŞ in World credit card programme. The Bank has authorized Bank's general manager for signing and preparation of the agreement.

According to the "Decision of the Council of Ministers Related to Determination of Value Added Tax Rates on Goods and Services" published in the 30 December 2007 dated and no.26472 Official Gazette, the Value Added Tax ("VAT") rate has changed as to be applied at the rates on underlying goods subject to the related leasing transaction whereas, preciously it was 1% for all leasing transactions. In accordance with this change, it is stated that the number and amount of the agreements has decreased by 63% and 51%, respectively.

25. Subsequent events

None.