Kuveyt Türk
Katılım Bankası
Anonim Şirketi

Consolidated Financial Statements Together With
Independent Auditors' Report
December 31, 2007

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 policies 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

March 3, 2008
Istanbul, Turkey

CONSOLIDATED BALANCE SHEET
As at December 31, 2007
(Currency – In thousands of New Turkish Lira - YTL)

	Notes	2007	2006
ASSETS			
Cash and balances with the Central Bank	4	**155,508**	79,098
Deposits with other banks and financial institutions	4, 28	**421,431**	306,051
Reserve deposits at the Central Bank	5	**191,811**	176,820
Financial assets – available-for-sale	6, 28	**577**	1,012
Financial assets – held to maturity	6, 28	**5,852**	-
Financial assets held for trading	6, 28	**133**	-
Due from financing activities, net	7, 28	**2,747,645**	2,076,968
Minimum finance lease payments receivable, net	8, 28	**160,940**	163,547
Derivative financial instruments	19, 28	**3,978**	63
Other assets	9, 18	**23,719**	15,687
Construction projects, net	10	**3,140**	4,478
Investment properties, net	11	**59,389**	35,107
Property and equipment, net	13	**69,742**	71,970
Intangible assets, net	14	**1,591**	1,724
Deferred tax assets	17	**7,886**	18,909
		3,853,342	2,951,434
Non-current assets or a disposal group held for sale	12	**6,673**	-
Total assets		**3,860,015**	2,951,434
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to other financial institutions and banks	15	**433,318**	277,143
Current and profit / loss sharing investors' accounts	16	**2,969,670**	2,375,761
Other liabilities	18	**34,372**	25,384
Provisions	18	**3,226**	2,537
Derivative financial instruments	19	**6,647**	487
Income taxes payable	17	**7,816**	-
		3,455,049	2,681,312
Liabilities directly associated with assets classified as held for sale	12	**544**	-
Total liabilities		**3,455,593**	2,681,312
Share capital	20	**260,000**	200,188
Share premium	20	**23,250**	-
Legal reserves and retained earnings	21	**121,172**	69,934
Total shareholders' equity		**404,422**	270,122
Total liabilities and shareholders' equity		**3,860,015**	2,951,434

The policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries
CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2007
(Currency – In thousands of New Turkish Lira - YTL)

	Notes	2007	2006
Income from financing activities:			
Profit / loss sharing accounts		**193,582**	166,007
Current accounts and equity		**112,074**	69,305
Profit on deposits with other banks and financial institutions		**27,897**	17,303
Profit on finance leases		**20,455**	16,977
Total income from financing activities		**354,008**	269,592
Profit shares distributed to participation accounts		**(185,865)**	(151,083)
Profit shares distributed to other banks and financial institutions		**(30,284)**	(13,977)
Net financing income		**137,859**	104,532
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	**(34,150)**	(20,931)
Net financing income after provision for impairment in due from financing activities and lease receivables		**103,709**	83,601
Foreign exchange gain / (loss), net		**14,114**	9,182
Net financing income after net foreign exchange gain / (loss)		**117,823**	92,783
Fees and commission income	24	**109,030**	70,043
Income from construction projects, net		**473**	1,054
Net trading income		**7,851**	1,991
Other income		**13,977**	4,138
Total other operating income		**131,331**	77,226
Fees and commission expense	24	**(16,886)**	(12,060)
Staff costs	25	**(83,848)**	(64,272)
Depreciation and amortization expense		**(11,923)**	(9,945)
Withholdings and other taxes		**(4,018)**	(3,608)
Rent expense		**(10,109)**	(8,191)
Other expenses	26	**(34,977)**	(30,653)
Total other operating expense		**(161,761)**	(128,729)
Income before taxation		**87,393**	41,280
Current tax charge	17	**(7,816)**	-
Deferred tax (charge) / credit	17	**(11,023)**	286
Net income for the year from continuing operations		**68,554**	41,566
Net income after tax for the year from a discontinued operation	12	**(1,476)**	(1,609)
Net income for the year		**67,078**	39,957
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full YTL per share)	22	**0.276**	0.187
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full YTL per share) from continuing operations	22	**0.282**	0.197

The policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2007
(Currency – In thousands of New Turkish Lira - YTL)

	Notes	Share Capital	Adjustment to Share Capital	Share Premium	Legal Reserves	Retained Earnings	Total
Balances at January 1, 2006		**200,188**	**22,703**	**-**	**4,585**	**2,836**	**230,312**
Transfer from retained earnings to legal reserves		-	-	-	1,509	(1,509)	-
Dividends paid		-	-	-	-	(147)	(147)
Transfer of adjustment to share capital to retained earnings		-	(22,703)	-	-	22,703	-
Net income for the year		-	-	-	-	39,957	39,957
Balances at December 31, 2006		**200,188**	**-**	**-**	**6,094**	**63,840**	**270,122**
Share capital increase	20	59,812	-	23,250	-	(13,312)	69,750
Transfer from retained earnings to legal reserves		-	-	-	1,812	(1,812)	-
Dividends paid	21	-	-	-	-	(2,528)	(2,528)
Net income for the year		-	-	-	-	67,078	67,078
Balances at December 31, 2007		**260,000**	**-**	**23,250**	**7,906**	**113,266**	**404,422**

The policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2007
(Currency – In thousands of New Turkish Lira - YTL)

	Notes	2007	2006
Cash flows from operating activities:			
Income from continuing operations before taxation		**87,393**	41,280
Income from discontinued operations before taxation		**(1,476)**	(1,609)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	11, 13, 14	**11,923**	10,567
Provision for employee termination benefits and personnel bonus accrual	18	**12,272**	9,607
Provision for impairment in due from financing activities and lease receivables	7,8	**34,150**	20,931
Provision for / (reversal of) impairment in intangible assets, property and equipment and investment properties		**579**	(2,584)
Provision for net realizable value and other receivables in construction projects	10	**1,090**	1,317
Income accrual of funds invested	7	**14,462**	(25,494)
Expense accrual of participation accounts	16	**8,648**	(4,719)
Income accrual from deposits at the Central Bank of Turkey		**(635)**	(766)
Expense accrual of funds borrowed		**5,022**	3,329
Net change in derivative financial instruments	19	**2,245**	389
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		**(1,279)**	(1,028)
Gain on sale of available for sale financial assets	6	**(3)**	(433)
Fair value movement of held for trading securities	6	**27**	-
Operating income before changes in operating assets and liabilities		**174,418**	50,787
Net changes in :			
Reserve deposits at the Central Bank of Turkey		**(14,356)**	(44,882)
Due from financing activities	7	**(718,967)**	(566,013)
Minimum finance lease payments receivables		**2,285**	(2,952)
Other assets and construction projects		**(7,272)**	2,031
Current accounts and profit/loss sharing investors' accounts	16	**585,261**	459,869
Other liabilities		**(2,012)**	5,428
Payment for employee termination benefits		**(565)**	(1,007)
Net cash provided by / (used in) operating activities		**18,792**	(96,739)
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	**(6,284)**	(184)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	**710**	14,049
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	**(45,799)**	(18,010)
Proceeds from sale of property and equipment, intangible assets and investment properties		**5,376**	5,782
Proceeds from sale of asset and liabilities held for sale		**786**	-
Net cash (used in) / provided by investing activities		**(45,211)**	1,637
Cash flows from financing activities:			
Dividends paid	21	**(2,528)**	(147)
Increase in due to financial institutions and banks		**151,153**	77,309
Premium on issue of shares	20	**23,250**	-
Increase in share capital	20	**46,500**	-
Net cash provided by financing activities		**218,375**	77,162
Net increase / (decrease) in cash and cash equivalents		**191,956**	(17,940)
Cash and cash equivalents at the beginning of the year	4	**385,149**	403,089
Cash and cash equivalents at the end of the year	4	**577,105**	385,149
Profit share received		**362,060**	244,098
Profit share paid		**207,501**	160,391

The policies and explanatory notes on pages 6 through 56 form an integral part of the consolidated financial statements.

1. CORPORATE INFORMATION

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait.

Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on March 3, 2008. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Bank and its Subsidiaries

At December 31, 2007, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has a 100% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey, including Güre Project, which comprises the construction of 199 "time-sharing" houses in Edremit-Balıkesir. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The Bank's other subsidiary, Auto Land Otomotiv San. ve Tic. A.Ş. ("Auto Land"), in which the Bank has a 100% shareholding was established in April 6, 2004 in Turkey. Auto Land's registered address is Basın Ekspres Yolu, B Blok, No:5 Halkalı/İstanbul. Auto Land is engaged in purchase, sale and lease transactions in the automotive industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments and financial investments held for trading that have been measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Bank and its subsidiaries (collectively – the Group) maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, Turkish Commercial Code and Turkish Tax Legislation. The consolidated financial statements have been prepared from the statutory financial statements of the Bank and its subsidiaries in New Turkish Lira (YTL) with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. Such adjustments mainly comprise effects of consolidation of subsidiaries and impairment of financial and non-financial assets.

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations had no material effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

⇒ IFRS 7 - *Financial Instruments: Disclosures*
⇒ IAS 1 – *Amendment – Capital Disclosures*
⇒ IFRIC 7 – *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"*
⇒ IFRIC 8 – *Scope of IFRS 2- Share-based payment*
⇒ IFRIC 9 – *Reassessment of Embedded Derivatives*
⇒ IFRIC 10 – *Interim Financial Reporting and Impairment*
⇒ IFRIC 11 – *IFRS 2 - Group and Treasury Share Transactions*

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after the balance sheet date or later periods but which the Group has not early adopted, as follows:

- ***IAS 1 Presentation of Financial Statements Revised*** *(effective for financial years beginning on or after January 1, 2009)*

IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. One of the main objectives of the changes is to separate owner and non-owner changes in equity. It is expected that the impact of the amended standard on the Group will be presentational.

- ***IFRS 8, Operating Segments*** *(effective for financial years beginning on or after January 1, 2009)*

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group is in the process of assessing the impact this new standard will have on its financial statements.

- **IFRIC 12, Service Concession Arrangements** *(effective for financial years beginning on or after January 1, 2008)*

The interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IAS 23, Borrowing Costs** *(effective for financial years beginning on or after January 1, 2009)*

The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group is in the process of assessing the impact of this new standard will have on its financial statements.

- **IFRIC 13, Customer Loyalty Programmes** *(effective for financial years beginning on or after July 1, 2008)*

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

- **IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** *(effective for financial years beginning on or after January 1, 2008)*

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.

- **Amendments to IFRS 2 'Share Based Payment' – Vesting Conditions and Cancellations** *(effective for annual periods beginning on or after January 1, 2009)*

The amendment clarifies two issues: The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. The Group expects that this Interpretation will have no impact on its financial statements.

- **Revisions to IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements'** *(effective for annual periods beginning on or after July1, 2009)*

A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued by IASB on January 10, 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

- **Amendments to IAS 32 and IAS 1 Puttable Financial Instruments** *(effective for annual periods beginning on or after 1 January 2009)*

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

The Group does not expect these amendments to impact the financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Reclassifications of Comparative Figures

The Group has made reclassifications in the consolidated balance sheet as of December 31, 2006 and in the consolidated income statement for the year ended December 31, 2006 to be consistent with the current year presentation. The reclassifications are as follows:

- YTL 3,183 representing construction in progress has been reclassified from investment property to property and equipment.
- YTL 9,003 representing income from reserve deposits has been reclassified from income from profit sharing accounts to profit and deposits with other banks and financial institutions.

2.4 Summary of Significant Accounting Policies

Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to financial statements. Management exercises judgment and makes use of information available at the date of the preparation of the financial statements in making these assumptions and estimates. The uncertainty about these judgments and estimates could result in outcomes that may have a material effect on future financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements relate to, impairment losses on due from financing activities and lease receivables and pensions which are discussed in the relevant sections of this note below:

Employee Benefits: The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 18.

There are judgments made by management during estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets required. Such estimations are disclosed in the relevant notes.

Functional and Presentation Currency

The functional and presentation currency of the Bank and its subsidiaries is New Turkish Lira (YTL).

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of YTL based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders’ equity including share capital reported in the balance sheet as of December 31, 2007 and 2006 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation of Subsidiaries

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2007 and 2006 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the year ended December 31, 2007 and 2006, respectively. Subsidiaries are all entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

The financial statements of the Subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material balances and transactions between the Bank and Subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries subject to consolidation are stated below:

		Effective shareholding by the Bank (%)	
Name of subsidiaries	Country of incorporation	**December 31, 2007**	December 31, 2006
"Körfez"	Turkey	**100%**	100%
"Auto Land"	Turkey	**100%**	100%

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the CBT. All differences are taken to the income statement as foreign exchange gain/loss.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	YTL / USD (full)	YTL / EUR (full)
December 31, 2005	1.35	1.59
December 31, 2006	1.40	1.85
December 31, 2007	1.16	1.71

Property and Equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

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. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Buildings	50 years
Furniture and office equipment	3–6.67 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment’s residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period/year the asset is derecognized.

Construction Projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Investment Property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of 50 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-Financial Assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment 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 the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in “other expenses” in the income statement.

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading, the change in value is recognized through profit and loss.

Available-for-sale Financial Assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment. For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealized gains and losses are recognized directly in equity. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Financial Assets at Fair Value through Profit or Loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Held to Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective yield method. Gains or losses are recognized in profit or loss when the investments are derecognized as impaired, as well as through the amortization process.

Due from Financing Activities, net

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as “due from financing activities” and are carried at amortized cost. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective yield of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.

Derivative Financial Instruments

The Bank enters into transaction with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group’s risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 “Financial Instruments: Recognition and Measurement”, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis.

Offsetting Financial Instruments

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

Derecognition of Financial Instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of Financial Assets

a) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
(c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets of the Bank.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

c) Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment regarding equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

d) ***Renegotiated financing and leasing receivables***

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current Accounts and Profit / Loss Sharing Investors' Accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

Due to Other Financial Institutions and Banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

Employee Benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined Benefit Plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

(b) Defined Contribution Plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable 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. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

Leases

The Group as Lessee

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

The Group as Lessor

Finance Lease

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and Expense Recognition

Credit card commissions are recognized on a straight-line basis when the service has been provided. Commission income and fees for various banking services (such as money transfers, granting short-term letters of guarantee and letters of credit) are recorded as income at the time when service is given.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 75% - 90% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group’s right to receive the payment is established.

Income earned on available-for-sale investments, which are carried at cost less any impairment is reported as profit share income.

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

Income Tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fiduciary Assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Parties

Parties are considered related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) has an interest that gives it significant influence; or
  (iii) has joint control;
(b) the party is an associate;
(c) the party is a joint venture;
(d) the party is a member of the key management personnel;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees or of any entity that is a related party.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Subsequent Events

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

Segment Information

The primary segment reporting format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products sold and services provided.

The Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information.

For management purposes, the Bank is organized into three business segments:

Retail banking – Principally handling individual customers' current, saving and investment accounts and providing consumer loans, credit cards facilities and funds transfer facilities.

Corporate and Commercial banking – Principally handling loans and other credit facilities and current, saving and investment accounts for corporate and institutional customers.

International and Investment Banking and Treasury – Principally handling foreign relations with respect to receiving syndication loans, interest free investment instruments and carrying relations with correspondent banks.

Total assets, liabilities, off-balance sheet items and revenues generated by the subsidiaries of the Bank do not satisfy reportable segment conditions and are therefore included in "other" column in segment disclosures.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

3. SEGMENT INFORMATION

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2007 and 2006, respectively.

For the year ended December 31, 2007	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	142,933	182,819	28,256	-	-	**354,008**
Profit shares distributed	(134,260)	(48,791)	(33,001)	(97)	-	**(216,149)**
Net fees and commission income	31,131	62,619	(1,746)	140	-	**92,144**
Other income	6,336	8,345	7,851	1,370	12,513	**36,415**
Total operating income	**46,140**	**204,992**	**1,360**	**1,413**	**12,513**	**266,418**
Provision for impairment in due from financing activities and lease receivables	(10,812)	(23,338)	-	-	-	**(34,150)**
Net operating income	**35,328**	**181,654**	**1,360**	**1,413**	**12,513**	**232,268**
Operating expenses, net	(6,058)	-	-	(2,534)	(136,283)	**(144,875)**
Income before taxation	**29,270**	**181,654**	**1,360**	**(1,125)**	**(123,770)**	**87,393**
Tax charge	-	-	-	-	(18,839)	**(18,839)**
Net income for the year from continuing operations						**68,554**
Net income for the year from discontinued operations	**-**	**-**	**-**	**(1,476)**	**-**	**(1,476)**
Net income for the year						**67,078**

Asset and liabilities as of December 31, 2007	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Due from financing activities and financial lease payments receivable, net	933,450 (*)	1,975,135	-	-	-	**2,908,585**
Financial assets – available for sale	-	-	577	-	-	**577**
Financial assets – held for trading	-	-	133	-	-	**133**
Financial assets – held to maturity	-	-	5,852	-	-	**5,852**
Other	-	34,337	787,376	25,214	97,941	**944,868**
Total assets	**933,450**	**2,009,472**	**793,938**	**25,214**	**97,941**	**3,860,015**
Due to other financial institutions and Banks	-	-	433,318	-	-	**433,318**
Current and profit / loss sharing investors' accounts	1,920,819	933,399	74,091	-	41,361	**2,969,670**
Other	-	702	6,647	13,689	31,567	**52,605**
Total liabilities	**1,920,819**	**934,101**	**514,056**	**13,689**	**72,928**	**3,455,593**
Capital Expenditures	-	-	-	-	45,961	45,961
Depreciation and Amortization	-	-	-	-	11,923	11,923

(*) Includes SME loans amounting YTL 220,232.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

3. SEGMENT INFORMATION (continued)

For the year ended December 31, 2006	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	94,040	156,160	17,303	125	1,964	**269,592**
Profit share distributed (*)	(101,612)	(30,811)	(18,791)	-	(13,846)	**(165,060)**
Net fees and commission income	19,413	38,446	79	45	-	**57,983**
Other income	2,287	3,528	1,991	(388)	8,947	**16,365**
Total operating income	**14,128**	**167,323**	**582**	**(218)**	**(2,935)**	**178,880**
Provision for impairment in due from financing activities and lease receivables (*)	(7,026)	(13,905)	-	-	-	**(20,931)**
Net operating income	**7,102**	**153,418**	**582**	**(218)**	**(2,935)**	**157,949**
Operating expenses, net	(5,381)	-	-	(3,860)	(107,428)	**(116,669)**
Profit before tax (*)	**1,721**	**153,418**	**582**	**(4,078)**	**(110,363)**	**41,280**
Tax benefit	-	-	-	286	-	**286**
Net income for the year from continuing operations						**41,566**
Net income for the year from discontinued operations	-	-	-	(1,609)	-	**(1,609)**
Net income for the year						**39,957**

Assets and Liabilities as of December 31, 2006	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Assets and liabilities						
Due from financing activities and financial lease payments receivable, net	734,253	1,506,262	-	-	-	**2,240,515**
Financial assets – available for sale	-	-	1,012	-	-	**1,012**
Other	-	-	560,638	42,211	107,058	**709,907**
Total assets	**734,253**	**1,506,262**	**561,650**	**42,211**	**107,058**	**2,951,434**
Due to other financial institutions and Banks	-	-	277,143	-	-	**277,143**
Current and profit loss sharing investors' accounts	1,310,351	988,522	64,874	-	12,014	**2,375,761**
Other	-	-	487	8,091	19,830	**28,408**
Total liabilities	**1,310,351**	**988,522**	**342,504**	**8,091**	**31,844**	**2,681,312**
Capital Expenditures	-	-	-	-	18,010	18,010
Depreciation and Amortization	-	-	-	-	10,567	10,567

(*) The Bank has not reflected profit share distribution between operating segments.
(**) Includes SME loans amounting YTL 112,380.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

4. CASH AND BALANCES WITH BANKS

	2007	2006
Cash on hand	**52,942**	62,132
Balances with the Central Bank	**102,566**	16,966
Cash and balances with the Central Bank	**155,508**	79,098
Balances with foreign banks	**178,099**	224,606
Balances with domestic banks	**241,688**	74,404
Current accounts in participation banks	**1,644**	7,041
Balances with banks and other financial institutions	**421,431**	306,051
Cash and cash equivalents	**576,939**	385,149

As of December 31, 2007 and 2006, within "balances with banks and other financial institutions" are made up of demand and time deposits. The time deposits, which have original maturities less than three months, and can be analyzed follows:

	2007				2006			
	Amount		**Effective profit rate**		Amount		Effective profit rate	
	YTL	**Foreign currency (YTL equivalent)**	**YTL**	**Foreign currency**	YTL	Foreign currency (YTL equivalent)	YTL	Foreign currency
Deposits with other banks and financial institutions	-	**204,450**	-	**4.59**%	-	209,782	-	4.95%
Total		**204,450**			-	209,782	-	-

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31, 2007 and 2006:

	2007	2006
Cash and balances with the Central Bank	**155,508**	79,098
Balances with Banks and other financial institutions	**421,431**	306,051
Cash at banks and on hand attributable to discontinued operation	**166**	-
Total	**577,105**	385,149

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

5. RESERVE DEPOSITS AT THE CENTRAL BANK OF TURKEY

	2007		2006	
	Foreign Currency (full)	**YTL**	Foreign Currency (full)	YTL
US$	**445,399**	**519**	445,399	629
EUR	**110,529,733**	**189,029**	93,830,114	174,393
YTL	**-**	**2,263**	-	1,798
		191,811	-	176,820

As of December 31, 2007, the interest rate applied for New Turkish Lira, US$ and Euro reserve deposits are 11.81%, 1.95% and 1.80% (December 31, 2006 - 13.12%, 2.52% and 1.70%), respectively.

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

6. FINANCIAL ASSETS

Available-for-sale

	2007	2006
At cost		
Participation funds (*)	**-**	707
Unlisted shares (**)	**577**	305
Total available-for-sale financial assets	**577**	1,012

(*) The Bank disposed of its investment in the profit sharing account with Islamic Development Bank for YTL 710 in 2007 recognizing a gain from the sale of YTL 3.

(**) The breakdown of unlisted shares is as follows:

		2007		2006	
	Nature of business	**%**	**Amount**	%	Amount
Islamic International Rating Agency (IRA)	Financial information	**12.43**	**577**	15.54	305
			577		305

IRA has increased its share capital by cash injection of its shareholders twice in 2007. The Group only participated one of this share capital increases with 234,000 USD and the shareholding percentage of the Group has decreased to 12.43%. The Group does not intend to dispose its shares in IRA.

The fair value of the above listed available-for-sale investments at cost can not be reliably estimated. There is no market for these investments.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

6. FINANCIAL ASSETS (continued)

Held to maturity

Held to maturity assets include a Sukuk investment amounting to YTL 5,852 that is invested by the Bahrain branch of the Bank. Islamic bond products are represented by Sukuks. It has a maturity that is determined in advance and is backed by an asset which makes it possible for the investment to earn a return without payment of interest. Sukuks are structured in such a way that their holders run a credit risk and receive part of the profit and not a fixed interest payment in advance. The maturity of the Sukuk is 2010 with quarterly payments. The rate of the Sukuk is Libor+2%.

Held for trading

Financial assets held for trading includes share certificates listed in the Istanbul Stock Exchange (ISE) amounting to YTL 133 (December 31, 2006 - None).

The movement in financial assets may be summarized as follows:

Financial investments		**2007**			2006	
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	**1,012**	**-**	**-**	14,682	-	-
Exchange differences	**3**	**-**	**-**	832	-	-
Additions	**272**	**5,852**	**160**	184	-	-
Disposals (sale and redemption)	**(710)**	**-**	**-**	(14,448)		-
Fair value movement	**-**	**-**	**(27)**	-	-	-
Impairment losses	**-**	**-**	**-**	(238)	-	-
Balance at the end of the year	**577**	**5,852**	**133**	1,012	-	-

7. DUE FROM FINANCING ACTIVITIES, NET

	2007	2006
Performing		
Funds invested from profit/loss sharing accounts	**1,381,741**	1,284,146
Funds invested from current accounts and equity	**1,285,189**	706,358
Income accruals on due from financing activities	**41,061**	55,523
	2,707,991	2,046,027
Funds in arrears		
Funds invested from profit / loss sharing accounts	**54,194**	65,606
Funds invested from current accounts and equity	**67,569**	45,985
	121,763	111,591
Total	**2,829,754**	2,157,618
Impairment allowance		
Funds invested from profit / loss sharing accounts in foreign currency	**(33,784)**	(35,266)
Funds invested from current accounts and equity	**(34,377)**	(29,280)
Funds invested from profit / loss sharing accounts – YTL	**(13,948)**	(16,104)
	(82,109)	(80,650)
Total due from financing activities	**2,747,645**	2,076,968

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

7. DUE FROM FINANCING ACTIVITIES, NET (continued)

As of December 31, 2007 the Bank took possession of collateral (lands and buildings) from customers amounting to YTL 3,050 (December 31, 2006 - YTL 1,031), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

The movement in impairment allowance is as follows:

	2007	2006
Balance at the beginning of the year	**80,650**	47,547
Provisions - participation accounts	**5,479**	19,148
Provisions - bank	**33,828**	19,705
Recoveries of amounts previously provided for	**(7,254)**	(3,287)
Reserves written off in current year (*)	**(30,594)**	(2,463)
Balance at the end of the year	**82,109**	80,650

(*) In 2007, non-performing loans for which a 100% provision was made in prior periods amounting in total to YTL 30,594 were written off (2006 – YTL 2,463).

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable (Note 8) is YTL 5,248 (December 31, 2006 – YTL 1,949) and this amount is included in other income.

The impairment allowance of YTL 82,109 (December 31, 2006 - 80,650) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the collective reserve allowance for financing receivables are as follows:

	2007	2006
Balance at beginning of year	**9,001**	7,985
Provisions - bank	**2,957**	501
Provisions - participation accounts	**770**	515
Recoveries and write-offs	**-**	-
Allowance at the end of the year	**12,728**	9,001

8. MINIMUM FINANCE LEASE PAYMENTS RECEIVABLE, NET

Minimum finance lease payments receivable (net) is as follows:

	2007	2006
Gross investment in finance leases	**172,934**	183,721
Unearned finance income	**(22,593)**	(27,460)
Total impaired receivables	**14,173**	14,466
Impairment allowance	**(3,574)**	(7,180)
Minimum lease payments receivable, net	**160,940**	163,547

Movements in the impairment allowance for leasing receivables is as follows:

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

8. MINIMUM FINANCE LEASE PAYMENTS RECEIVABLE, NET (continued)

	2007	2006
Balance at 1 January	**7,180**	11,011
Provisions - participation accounts	**626**	3,126
Provisions - Bank	**322**	1,226
Recoveries of amounts previously provided for	**(833)**	(1,879)
Impairment allowance written off in current year	**(3,721)**	(6,304)
Balance at the end of the year	**3,574**	7,180

Gross investment in finance leases as to their maturity:

	2007	2006
Not later than 1 year (*)	**109,440**	109,635
Later than 1 year and not later than 5 years	**77,434**	86,766
Later than 5 years	**233**	1,786
Minimum lease payments receivable, gross	**187,107**	198,187
Less : Unearned finance income	**(22,593)**	(27,460)
Net investment in finance leases	**164,514**	170,727
Less : Allowance for impairment	**(3,574)**	(7,180)
Minimum lease payments receivable, net	**160,940**	163,547

(*) includes total impaired receivables amounting to YTL 14,173 (December 31, 2006 – 14,466 YTL).

As of December 31, 2007, YTL 141,701 (December 31, 2006 - YTL 163,269) gross lease receivables are denominated in foreign currency (US$ and EUR).

Net investment in finance leases as to their maturity:

	2007	2006
Not later than 1 year (*)	**95,439**	94,445
Later than 1 year and not later than 5 years	**68,924**	74,744
Later than 5 years	**151**	1,538
Net investment in finance leases	**164,514**	170,727

(*) includes total impaired receivables amounting to YTL 14,173 (December 31, 2006 – 14,466 YTL).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

9. OTHER ASSETS

Other assets comprise the following:

	2007	2006
Transitory accounts (*)	**8,197**	6,490
Precious metals	**10,088**	-
Value added tax (VAT) receivable	**1,864**	1,815
Receivable from assets sold	**1,198**	1,248
Inventory (mainly from Auto Land)	**-**	929
Other	**2,372**	5,205
	23,719	15,687

(*) Includes mainly receivables from profit share investors, prepaid expenses and receivables from the Central Bank.

10. CONSTRUCTION PROJECTS, NET

Construction projects mainly include the Güre Premises (time sharing houses) which belong to one of the subsidiaries of the Bank, Körfez.

	2007	2006
Completed construction projects (inventories)	**13,201**	13,205
Receivables from construction projects	**176**	420
	13,377	13,625
(Less) Reserve for net realizable value (Note 26)	**(10,061)**	(8,735)
(Less) Reserve for doubtful receivables	**(176)**	(412)
Total construction projects, net	**3,140**	4,478

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

11. INVESTMENT PROPERTIES, NET

	2007	2006
Balance at the beginning of the year	**35,107**	36,980
Additions	**18,377**	4,121
Disposal (*)	**(3,351)**	(4,434)
Depreciation charge	**(866)**	(1,169)
Impairment allowance	**-**	(200)
Reversal of impairment due to the disposal	**84**	2,687
Transfer to asset held for sale (Note 12)	**(3,236)**	-
Transfer from fixed assets (Note 13)	**14,205**	-
Transfer to fixed assets (Note 13)	**(931)**	(2,878)
Balance at the end of the year	**59,389**	35,107
Cost	**61,489**	36,476
Accumulated depreciation	**(1,984)**	(1,169)
Accumulated impairment	**(116)**	(200)
Net carrying amount	**59,389**	35,107

(*) During the years ended December 31, 2007 and 2006, the Bank sold investment properties for which there was impairment allowance of YTL 84 and YTL 2,687 respectively.

Out of YTL 59,389, an investment property (a building) amounting to YTL 23,288 (December 31, 2006 – YTL 23,784), is fully financed by Kuwait Finance House and due to the agreement signed, the rental income from this property is directly transferred to Kuwait Finance House in each quarter. The Group obtained YTL 2,267 rent income from this property during the year ended December 31, 2007 (December 31, 2006 – YTL 2,723) and directly transferred to Kuwait Finance House.

Fair value of the investment properties is YTL 72,837 (December 31, 2006 - YTL 40,750) which is determined based on the valuations performed by independent qualified valuers.

12. NON-CURRENT ASSETS OR A DISPOSAL GROUP HELD FOR SALE

At December 31, 2007, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this and prior periods amounting to YTL 3,236, which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank.

Movement of non-current assets held for sale is as follows:

	2007	2006
Balance at the beginning of the year	**-**	-
Additions	**-**	-
Transfer from investment property (Note 11)	**3,236**	-
Disposal	**(728)**	-
Depreciation charge	**-**	-
Balance at the end of the year	**2,508**	-

Gain on sale of non-current assets held for sale amounting to YTL 511 is included in other income in the income statement.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

12. NON-CURRENT ASSETS OR A DISPOSAL GROUP HELD FOR SALE (continued)

The disposal of Auto Land has been finalized on February 28, 2008 and the Group signed a sales contract with two companies (namely Baytik Capital Holding B.S.C and A'ayan Leasing and Investment Company) with respect to disposal of Auto Land. As at December 31, 2007, Auto Land was classified as a disposal group held for sale.

The results of Auto Land for the years are presented below:

	2007	2006
Foreign exchange gain/(loss), net	**300**	(419)
Other income	**679**	1,630
Staff costs	**(746)**	(1,235)
Depreciation and amortization expense	**(864)**	(622)
Other expense	**(404)**	(426)
Effects of consolidation	**(441)**	(537)
Net loss for the year	**(1,476)**	(1,609)

The major classes of assets and liabilities of Auto Land classified as held for sale as at December 31, 2007 are as follows:

	2007	2006 (*)
Cash and due from banks	**208**	-
Property and equipment, net (Note 13)	**3,056**	-
Other assets	**955**	-
Assets	**4,219**	-
Effects of consolidation (**)	**(54)**	
Consolidated assets of Auto Land	**4,165**	
Due to other financial institutions and banks	**2,384**	-
Other liabilities	**761**	-
Liabilities	**3,145**	-
Effects of consolidation	**(2,601)**	
Consolidated liabilities of Auto Land	**544**	
Net assets directly associated with disposal group	**3,621**	-

(*) Auto Land was not classified as held for sale in 2006, therefore there are no comparative balances in 2006.

(**) Includes elimination of the cash in banks balance of Auto Land deposited to the Bank amounting to YTL 42.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

12. NON-CURRENT ASSETS OR A DISPOSAL GROUP HELD FOR SALE (continued)

The net cash flows incurred by Auto Land are as follows:

	2007	2006
Operating	**(608)**	(1,318)
Net cash outflow	**(608)**	(1,318)

The table below summarizes the maturity profile of the discontinued operation's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Due to other financial institutions and banks	-	-	-	2,601	-	**2,601**

13. PROPERTY AND EQUIPMENT, NET

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2006, net of accumulated depreciation and impairment	40,861	11,454	10,195	2,068	306	64,884
Additions	456	6,739	4,410	1,164	2,877	15,646
Disposals	(80)	(11)	-	(229)	-	(320)
Depreciation charge for the year	(708)	(4,102)	(2,888)	(639)	-	(8,337)
Reversal of impairment	97	-	-	-	-	97
At December 31, 2006, net of accumulated depreciation and impairment	**40,626**	**14,080**	**11,717**	**2,364**	**3,183**	**71,970**
Additions	639	8,115	3,958	1,685	11,078	25,475
Disposals	(4)	(265)	(225)	(252)	-	(746)
Depreciation charge for the year	(871)	(4,850)	(3,671)	(572)	-	(9,964)
Impairment charge	(663)	-	-	-	-	(663)
Disposal of discontinued operations (Note 12)	-	(235)	-	(2,821)	-	(3,056)
Transfer from/(to) investment property (Note 11)	931	-	-	-	(14,205)	(13,274)
At December 31, 2007, net of accumulated depreciation and impairment	**40,658**	**16,845**	**11,779**	**404**	**56**	**69,742**

(*) YTL 7,929 (net) and YTL 3,743 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2007 and 2006, respectively. There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2006						
Cost	44,837	38,760	18,922	4,386	3,183	110,088
Accumulated depreciation	(4,211)	(24,680)	(7,205)	(2,022)	-	(38,118)
Accumulated impairment	-	-	-	-	-	-
Net carrying amount	**40,626**	**14,080**	**11,717**	**2,364**	**3,183**	**71,970**
At December 31, 2007						
Cost	46,397	46,224	22,521	2,828	56	**118,026**
Accumulated depreciation	(5,076)	(29,379)	(10,742)	(2,424)	-	**(47,621)**
Accumulated impairment	(663)	-	-	-	-	**(663)**
Net carrying amount	**40,658**	**16,845**	**11,779**	**404**	**56**	**69,742**

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

13. PROPERTY AND EQUIPMENT, NET (continued)

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2007 and 2006 is as follows:

	2007	2006
Motor vehicles	**148**	217
Leasehold improvements	**1,346**	1,346
Furniture and office equipment	**6,539**	3,708
	8,033	5,271

14. INTANGIBLE ASSETS, NET

	Software
At January 1, 2006	1,970
Additions	815
Disposals	-
Amortization charge for the year	(1,061)
At December 31, 2006, net of accumulated amortization	**1,724**
Additions	1,016
Disposals	(56)
Amortization charge for the year	(1,093)
At December 31, 2007, net of accumulated amortization	**1,591**
At December 31, 2006	
Cost (gross carrying amount)	5,038
Accumulated amortization	(3,314)
Net carrying amount	**1,724**
At December 31, 2007	
Cost (gross carrying amount)	5,998
Accumulated amortization	(4,407)
Net carrying amount	**1,591**

The cost of intangible assets, which are fully amortized but still in use as of December 31, 2007 and 2006 is YTL 2,263 and YTL 1,296, respectively.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

15. DUE TO OTHER FINANCIAL INSTITUTIONS AND BANKS

	Amount in YTL	
Original Foreign Currency	**2007**	2006
US$	**420,245**	218,660
Euro	**13,073**	58,483
Total	**433,318**	277,143

As of December 31, 2007 short-term borrowings (less than 12 months) amounts to YTL 172,862 (As of December 31, 2006, all borrowings of the Group comprise short-term borrowings).

16. CURRENT AND PROFIT / LOSS SHARING INVESTORS' ACCOUNTS

	2007	2006
Current accounts:		
New Turkish lira	**346,929**	207,401
Foreign currency	**321,761**	356,054
	668,690	563,455
Profit/loss sharing investors' accounts:		
New Turkish lira	**1,000,400**	694,309
Foreign currency	**1,265,568**	1,094,231
	2,265,968	1,788,540
Blocked accounts:		
New Turkish lira	**20,044**	18,203
Foreign currency	**1,651**	894
	21,695	19,097
Total current accounts and profit/loss investors' accounts	**2,956,353**	2,371,092
Expense accrual on current accounts and profit/loss sharing investors' accounts	**13,317**	4,669
Total current accounts and profit/loss sharing investors' accounts	**2,969,670**	2,375,761

Blocked accounts include receivables of Point of Sale machine holding depositors which become current account within an average of one month period.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

16. CURRENT AND PROFIT LOSS SHARING INVESTORS' ACCOUNTS (continued)

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	2007 (in YTL)			2006 (in YTL)		
	YTL	**Foreign Currency**	**Total**	YTL	Foreign Currency	Total
Up to 1 month	**990,629**	**930,156**	**1,920,785**	776,047	1,140,235	1,916,282
From 1 month to 3 months	**263,386**	**419,976**	**683,362**	89,459	173,529	262,988
From 3 months to 1 year	**39,834**	**151,762**	**191,596**	31,257	82,206	113,463
Over one year	**73,524**	**87,086**	**160,610**	23,150	55,209	78,359
	1,367,373	**1,588,980**	**2,956,353**	919,913	1,451,179	2,371,092

At December 31, 2007 and 2006, foreign currency current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2007		2006	
	Foreign currency (full)	**YTL Equivalent**	Foreign currency (full)	YTL Equivalent
Current and blocked accounts:				
US$	**180,752,078**	**210,522**	171,801,273	242,772
Euro	**57,115,836**	**97,680**	58,743,913	109,181
Other		**15,210**		4,995
		323,412		356,948
Profit/loss sharing investors' accounts:				
US$	**589,510,858**	**686,604**	472,895,493	668,249
Euro	**338,536,012**	**578,964**	229,195,397	425,982
Other		**-**		-
		1,265,568		1,094,231
		1,588,980		1,451,179

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

17. INCOME TAXES

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal year ending December 31, 2007 and 2006 is 20%, unless qualifying capital investments are made in which case the tax rate is 30% for 2007 and 2006. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from January 1, 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to December 31, 2005 will be able to deduct such amounts from corporate income tax base until the end of December 31, 2008; however, the corporate tax rate will be 30% for them. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 will be subject to investment incentives until the end of December 31, 2008. In 2006 and 2007, the Bank utilized its investment incentive allowance; whereas for 2008 the Bank has decided not to utilize its investment incentive allowances, therefore in 2008 the corporate tax rate for the Bank will be 20%.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital in accordance with the New Corporate Tax Law.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2003 - 2007), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

	2007	2006
Current tax expense	**(7,816)**	-
Deferred tax credit/(charge)	**(11,023)**	286
Total income tax (charge)/credit	**(18,839)**	286

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

17. 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 Bank's effective income tax rate for the years December 31, 2007 and 2006 is as follows:

	2007	2006
Profit before income tax from continuing operations	**87,393**	41,280
Loss before tax from a discontinued operation	**(1,476)**	(1,609)
Net profit before income tax	**85,917**	39,671
At Turkish statutory income tax rate of 30%	**25,775**	11,901
Effect of change in tax rate	**(1,348)**	(1,781)
Effect of income not subject to tax	**(5,282)**	(6,374)
Effect of expenditure not allowable for income tax purposes	**6,422**	1,103
Effect of restatement pursuant to IAS 29 and others	**(3,063)**	(2,686)
Effect of investment incentive	**(3,665)**	(2,449)
Income tax expense/(benefit)	**18,839**	(286)

Deferred income tax as of December 31, 2007 and 2006 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2007	2006
Provision for impairment in due from financing activities	**1,463**	-
Accounting for finance leases	**502**	4,392
Derivative accrual	**534**	127
Reserve for employee termination benefits	**638**	507
Effect of other temporary differences	**412**	485
Investment incentive	**-**	17,871
Provision for impairment in subsidiaries	**3,028**	-
Deferred income	**1,425**	418
Bonus accrual of personnel	**2,204**	2,387
Deferred tax assets	**10,206**	26,187
Restatement of property and equipment, intangible assets and other non-monetary items	**2,280**	1,084
Provision for impairment in due from financing activities	**-**	2,206
Effect of other temporary differences	**40**	953
Deferred tax liabilities	**2,320**	4,243
Deferred tax asset – net	**7,886**	21,944
Deferred tax asset not recognized (*)	**-**	(3,035)
Deferred tax asset - net	**7,886**	18,909

(*) The deferred tax assets arising on temporary differences have not been fully recognized as of December 31, 2006, on the basis that a portion amounting to YTL 3,035 will not be realized in the foreseeable future due to the taxable income generation projections of the Bank.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

17. INCOME TAXES (continued)

Movement of net deferred tax asset is:

	2007	2006
Balance at the beginning of the year	**18,909**	18,623
Deferred tax (charge)/credit recognized in income statement	**(11,023)**	286
Balance at the end of the year	**7,886**	18,909

18. OTHER LIABILITIES AND PROVISIONS

	2007	2006
Personnel bonus accrual	**11,018**	7,956
Withholding tax and other tax payables	**7,479**	6,451
Deferred revenue	**7,960**	4,338
Security premium for participation funds	**1,626**	1,380
Payables to exporters and suppliers	**1,219**	1,310
Leasing payable	**1,997**	930
Deductions on resource usage fund	**616**	640
Other	**2,457**	2,379
Total liabilities	**34,372**	25,384
Provisions		
Employee termination benefits	**3,226**	2,537
Total provisions	**3,226**	2,537
Total	**37,598**	27,921

The movement in reserve for employee termination benefits is as follows:

	2007	2006
Balance at January 1	**2,537**	1,893
Utilized/paid	**(565)**	(1,007)
Arising during the year	**1,235**	2,008
Actuarial gain/(loss)	**19**	(357)
Balance at the end of the year	**3,226**	2,537

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

18. OTHER LIABILITIES AND PROVISIONS (continued)

Reserve For Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 2.030 (full) and YTL 1.857 (full) at December 31, 2007 and 2006, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2007 and 2006, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The following actuarial assumptions were used in the calculation of the total liability:

	2007	2006
Discount rate (%)	**11**	11
Expected salary / ceiling increase rate (%)	**5**	5

19. 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.

The table below shows the 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 year-end and are neither indicative of the market risk nor credit risk.

The fair values of forward transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements with discounted value of related transaction's forward exchange rates to financial statements date.

	December 31, 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**	**Over 1 year**
Derivatives held for trading								
Currency swap purchase	**3,978**	**-**	**497,278**	**329,842**	**164,101**	**3,335**	**-**	**-**
Currency swap sale	**-**	**6,647**	**497,876**	**328,783**	**166,497**	**2,596**	**-**	**-**
	3,978	**6,647**	**995,154**	**658,625**	**330,598**	**5,931**	**-**	**-**

	December 31, 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	Over 1 year
Derivatives held for trading								
Currency swap purchase	63	-	446,676	446,676	-	-	-	-
Currency swap sale	-	487	447,206	447,206	-	-	-	-
	63	487	893,882	893,882	-	-	-	-

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

20. SHARE CAPITAL

	2007	2006
Number of ordinary shares, 1 YTL, par value. Authorized, issued and outstanding.	**260.00 million**	200.19 million

The movement of the share capital of the Bank (in number and in historical YTL) is as follows:

	2007		2006	
	Number	**YTL**	Number	YTL
At January 1	**200,188,000**	**200,188**	2,001,880,000	200,188
Shares issued in				
- bonus shares from retained earnings	**13,312,000**	**13,312**	-	-
- cash	**46,500,000**	**46,500**	**-**	-
- effect of change of par value	**-**	**-**	(1,801,692,000)	-
At year end	**260,000,000**	**260,000**	200,188,000	200,188

In the Ordinary General Meeting dated April 26, 2006 it was decided that the par value of the ordinary shares be increased to YTL 1 (full) from YTL 0.1 (full).

The Bank does not have any classes of shares other than ordinary shares. There is no differentiation in the rights, preferences and restrictions of the ordinary shares.

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

	2007		2006	
	Amount	**%**	Amount	%
Kuwait Finance House	**161,810**	62.2	124,586	62.2
Directorate of Vakıf Foundations, Turkey	**48,670**	18.7	37,473	18.7
The Public Institution for Social Security, Kuwait	**23,400**	9.0	18,017	9.0
Islamic Development Bank	**23,400**	9.0	18,017	9.0
Other	**2,720**	1.1	2,095	1.1
Total share capital	**260,000**		200,188	

The Bank increased its share capital on May 16, 2007. The share capital increase was funded from the retained earnings amounting to YTL 13,312 and by the cash payment of shareholders amounting to YTL 69,750 for 46,500,000 shares. As the shareholders paid YTL 1.5 per share instead of 1 YTL per share, YTL 23,250 has been recorded as share issue premium in the financial statements.

21. LEGAL RESERVES, RETAINED EARNINGS, DIVIDENDS PAID AND PROPOSED

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 share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the 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.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

21. LEGAL RESERVES, RETAINED EARNINGS, DIVIDENDS PAID AND PROPOSED (continued)

Dividends Paid and Proposed

During the current year, the Bank has paid a dividend of YTL 2,528 (2006-YTL 147).

	2007	2006
Ordinary shares		
Amount	**2,528**	147
YTL (full) per share	**0.012**	0.001

22. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2007 and 2006.

The following reflects the income and per share data used in the basic earnings per share computations:

	2007	2006
Net profit attributable to continuing operations of the Bank for basic earnings per share	**68,554**	41,566
Net loss attributable to discontinued operations for basic earnings per share	**(1,476)**	(1,609)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	**67,078**	39,957
Weighted average number of ordinary shares for basic earnings per share (thousands)	**242,754**	213,500
Basic earnings per share (expressed in full YTL per share)	**0.276**	0.187

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

23. RELATED PARTY DISCLOSURES

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 the financial and operating decisions. The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2006 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2006 -18.7%), 9.0% (December 31, 2006 - 9.0%) and 9.0% (December 31, 2006 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders and parties associated with them are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2007 and 2006 and transactions have been entered into with related parties during the years ended:

i) Due from financial institutions:

		2007		2006	
		Foreign Currency (full)	**YTL equivalent**	Foreign currency (full)	YTL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	**748**	**82**	842	5
	US$	**579,360**	**653**	1,557,757	2,201
	BHD	**44,411**	**137**	14,999	56
			872		2,262

ii) Available for sale investments and financial assets at fair value through profit or loss:

		2007		2006	
		Foreign Currency (full)	**YTL Equivalent**	Foreign Currency (full)	YTL Equivalent
Islamic Development Bank participation fund (1)	US$	**-**	**-**	500,000	707
		-	**-**	-	707

iii) Due to other financial institutions:

		2007		2006	
		Foreign Currency (full)	**YTL Equivalent**	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House, Bahrain (1)	US$	**41,204,913**	**45,283**	15,940,830	22,526
Kuwait Finance House (*)	US$	**13,452,282**	**14,854**	14,164,603	20,016
Kuwait Finance House, Bahrain	EUR	**3,119,549**	**5,357**	-	-
Other	US$	**-**	**-**	2,102,500	2,991
			65,494		45,533

(*) The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

23. RELATED PARTY DISCLOSURES (continued)

iv) Profit/loss sharing investors' and current accounts:

		2007		2006	
		Foreign Currency (full)	**YTL Equivalent**	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	EUR	**-**	**-**	8,037,489	14,939
Kuwait Finance House (1)	US$	**1,041,470**	**1,215**	155,454	220
Kuwait Finance House (1)	YTL	**-**	**128**	-	133
Kuwait Finance House (1)	BHD	**-**	**-**	-	-
Islamic Development Bank (1)	US$	**21,465**	**26**	11,910	17
Islamic Development Bank (1)	YTL	**-**	**-**	-	144
Directorate of Vakıf Foundations, Turkey (1)	YTL	**-**	**2**	-	2,489
			1,371		17,942

v) Profit shares distributed:

		2007		2006	
		Foreign Currency (full)	**YTL Equivalent**	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US$	**28,753**	**33**	117,947	167
Kuwait Finance House (1)	EUR	**76,198**	**131**	176,197	327
Directorate of Vakıf Foundations, Turkey (1)	YTL	**-**	**205**		303
Other	US$			364,031	518
			369		1,315

vi) Non cash credits issued:

		2007		2006	
		Foreign Currency (full)	**YTL Equivalent**	Foreign Currency (full)	YTL Equivalent
Kuwait Finance House (1)	US$	**1,145,359**	**1,334**	5,212,120	7,365
			1,334		7,365

(1) Shareholders.

As of December 31, 2007 no provisions have been recognized in respect of loans given to related parties (December 31, 2006 - nil).

Loans amounting to YTL 74 have been issued to directors during the year ended December 31, 2007 (December 31, 2006 – YTL 95).

Directors' Remuneration

The executive members of the Board of Directors and key management received remuneration totaling YTL 4,205 during the year ended December 31, 2007 (December 31, 2006 – YTL 3,607). As of December 31, 2007 and 2006 termination benefits of the key management personnel (included in total remuneration package of YTL 4,205) is YTL 263 and YTL 495, respectively.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

23. RELATED PARTY DISCLOSURES (continued)

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman
Abdullah TIVNIKLI	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. and Audit Committee Member
Kenan KARADENİZ	B.O.D. Member
Shaeen H.A. KH: SH. ALGHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz KH E AL SALEH	B.O.D. Member

Key management includes 9 other officers together with the above B.O.D. members.

24. FEES AND COMMISSION INCOME AND EXPENSE

	2007	2006
Fees and commission income		
Service commissions	**45,205**	29,406
Credit card fees and commissions	**17,323**	13,044
Commission income from commitments	**20,472**	9,637
Communication expense charges	**10,585**	6,838
POS commission income	**6,150**	4,048
Import letter of credit commissions	**3,583**	2,838
Income from agency activities	**2,100**	925
Commissions from checks and notes	**2,371**	1,525
Other	**1,235**	1,782
Total	**109,030**	70,043

	2007	2006
Fees and commission expense		
Credit card machine and fees paid for credit card	**12,824**	9,824
Brokerage fees on borrowings	**1,431**	315
ATM charges	**612**	812
Other	**2,019**	1,109
Total	**16,886**	12,060

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

25. SALARIES AND EMPLOYEE BENEFITS

	2007	2006
Staff costs		
Wages and salaries	**49,179**	37,567
Bonus	**11,018**	7,956
Social security premiums	**9,102**	7,180
Other fringe benefits	**7,589**	5,455
Health expenses	**3,696**	2,720
Provision for employee termination benefits	**689**	644
Other	**2,575**	2,750
Total	**83,848**	64,272

26. OTHER EXPENSES

	2007	2006
Impairment on available-for-sale securities	**-**	238
Impairment on investment property	**-**	200
Impairment on completed projects (Note 10)	**1,326**	1,235
Impairment on property and equipment (Note 13)	**663**	-
Impairment charges	**1,989**	1,673
Insurance fund premium expense	**6,058**	5,381
Advertising expenses	**6,192**	3,466
Professional fees	**3,423**	3,840
Communication	**4,021**	3,738
Travel and representation expenses	**2,419**	2,352
Repair and maintenance expenses	**2,663**	2,150
Cleaning expense	**1,904**	1,423
Energy expenses	**1,669**	1,418
Stationery and publishing expenses	**929**	840
Subscription expenses	**835**	760
Computer usage expenses	**813**	268
Insurance expense	**476**	421
Other	**1,586**	2,923
Other expenses	**32,988**	28,980
Total	**34,977**	30,653

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

27. COMMITMENTS AND CONTINGENCIES

In the normal course of its banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2007 and 2006:

	2007	2006
Letters of guarantee issued by the Bank	**1,451,541**	774,846
Letters of credit	**305,154**	260,379
Commitments	**346,571**	273,442
Acceptance credits	**9,283**	13,668
Other guarantees	**3,805**	4
Total	**2,116,354**	1,322,339

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The Bank has YTL 17,886, USD 8,638,216 (full), Euro 1,775,624 (full) total YTL 30,984, converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2007. The allocation of these obligations within lease periods as of December 31, 2007 and 2006 is as follows:

	2007	2006
Within one year	**9,761**	8,274
After one year but not more than five years	**21,172**	17,854
More than five years	**51**	39
	30,984	26,167

Fiduciary Activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of YTL 7,132 and YTL 4,057 as of December 31, 2007 and 2006 respectively. As of December 31, 2007, the amounts of the checks and notes are YTL 680,124 (December 31, 2006 – YTL 626,658) and YTL 137,567 (December 31, 2006 – YTL 166,889) respectively.

28. FINANCIAL RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

Organization of the Risk Management Function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee Audit Committee is responsible for identifying, measuring, monitoring and reporting Market, Credit, Liquidity and Operational Risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

Internal Systems and Risk Management Policies

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and the Risk Management Department.

28. FINANCIAL RISK MANAGEMENT (continued)

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit Committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Risk Management and Treasury Middle Office Deportment

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks.

Board of Inspectors and Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Credit Risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals.

Gross maximum exposure	**2007**	2006
Cash and balances with central bank (excluding cash on hand)	**294,377**	193,786
Deposit with banks and financial institutions	**421,431**	306,051
Due from financing activities	**2,747,645**	2,076,968
Minimum financial lease payments receivable	**160,940**	163,547
Financial assets-available for sale	**577**	1,012
Financial assets-held to maturity	**5,852**	-
Financial assets-held for trading	**133**	-
Other assets	**23,719**	15,687
Derivative financial instruments	**3,978**	63
Total	**3,658,652**	2,757,114
Contingent liabilities	**1,756,695**	1,035,825
Other guarantees	**13,088**	13,672
Commitments	**346,571**	273,442
Total	**2,116,354**	1,322,939
Total credit risk exposure	**5,775,006**	4,080,053

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2007 was YTL 61,797 (December 31, 2006 - YTL 118,509) and non cash credit exposure as of December 31, 2007 was YTL 62,164 (December 31, 2006 - YTL 28,670) before taking account of collateral or other credit enhancements with full protection of immovable collaterals for cash loan and promissory notes for non cash loans.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2007	2006
	Gross exposure	Gross exposure
Construction and materials	**1,172,961**	604,159
Financial services	**792,881**	541,110
Textile and leather	**623,352**	435,282
Materials	**500,251**	234,894
General retailers	**413,178**	342,731
Manufacturing	**282,777**	143,910
Electricity	**217,898**	150,001
Health care and Social Services	**178,326**	116,270
Forestry	**109,670**	83,413
Food and beverages	**87,117**	83,702
Consumers	**51,594**	76,453
Automotive	**48,630**	41,705
IT	**42,730**	37,555
Real estate	**26,726**	13,981
Paper	**24,863**	47,278
Telecommunications	**7,311**	4,111
Other	**1,194,741**	1,123,498
Total	**5,775,006**	4,080,053

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for due from banks, central bank and reserve deposit balances, financing and leasing receivables, letters of credit, letters of guarantee and other guarantees, based on the Group's credit rating system. The Group classifies the Central Bank of Turkey as high grade. Banks and financial institutions located in Turkey, European Union, United States of America and other OECD countries are graded as standard. Banks, which are located in other countries, are graded as sub-standard by the Bank. Customers of financing and leasing receivable, letters of credit, letters of guarantee and other guarantees are graded in accordance with their transaction volume, payment performance and income generation of the Group from the customer.

2007	**High Grade**	**Standard grade**	**Sub-standard grade**	**Past due or individually impaired**	**Unrated (*)**	**Total**
Due from banks, central bank and reserve deposits (excluding cash on hand)	294,377	283,842	137,589	-	-	**715,808**
Financing and leasing receivables	-	**242,866**	**63,051**	**231,524**	**2,371,144**	**2,908,585**
Corporate lending	-	242,866	63,051	98,579	1,355,191	**1,759,687**
Small business lending	-	-	-	25,043	772,466	**797,509**
Consumer lending	-	-	-	99,463	130,145	**229,608**
Credit cards	-	-	-	8,439	113,342	**121,781**
Contingent liabilities and other guarantees	-	216,210	161,887	-	1,391,686	**1,769,783**
Commitments	-	10,270	-	-	336,301	**346,571**
Total	**294 ,377**	**753,188**	**362,527**	**231,524**	**4,099,131**	**5,740,747**

2006	**High grade**	**Standard grade**	**Sub-standard grade**	**Past due or individually impaired**	**Unrated (*)**	**Total**
Due from banks, central bank and reserve deposits (excluding cash on hand)	193,785	185,183	120,869	-	-	**499,837**
Financing and leasing receivables	-	**48,279**	**126,346**	**254,913**	**1,810,977**	**2,240,515**
Corporate lending	-	48,279	126,346	114,751	939,022	**1,228,398**
Small business lending	-	-	-	24,952	698,397	**723,349**
Consumer lending	-	-	-	93,949	103,726	**197,675**
Credit cards	-	-	-	21,261	69,832	**91,093**
Contingent liabilities and other guarantees	-	221,880	249,997	-	577,620	**1,049,497**
Commitments	-	-	-	-	273,442	**273,442**
Total	**193,785**	**455,342**	**497,212**	**254,913**	**2,662,039**	**4,063,291**

(*) The Group's rating approach is applicable for financial assets with outstanding risk above YTL 3,000.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

2007	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Due from financing activities:					
Corporate lending	**55,404**	**8,929**	**5,439**	**-**	**69,772**
Consumer lending	**62,382**	**23,525**	**5,201**	**-**	**91,108**
Small business lending	**10,746**	**3,337**	**1,302**	**-**	**15,385**
Credit cards	**3,694**	**887**	**425**	**-**	**5,006**
Total	**132,226**	**36,678**	**12,367**	**-**	**181,271**

2006	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	40,666	62,559	2,237	-	105,462
Consumer lending	76,360	10,050	4,781	-	91,191
Small business lending	1,549	1,633	96	-	3,278
Credit cards	12,780	2,783	1,191	-	16,754
Total	131,355	77,025	8,305	-	216,685

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2007 and 2006 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2007	2006
Due from financing activities:		
Corporate lending	**3,140**	4,004
Small business lending	**-**	-
Total renegotiated financial assets	**3,140**	4,004

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To manage the risk, the financial assets of large customers are regularly assessed by the Group. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

Analysis of financial liabilities by remaining contractual maturities on an undiscounted basis:

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at December 31, 2007						
Due to other financial institutions and banks	-	40,647	148,928	259,702	-	**449,277**
Derivative financial instruments	-	495,280	2,596	-	-	**497,876**
Current accounts	690,385	-	-	-	-	**690,385**
Profit and loss sharing accounts	-	2,131,440	166,676	532	-	**2,298,648**
Other financial liabilities	-	895	1,181	6	-	**2,082**
Total undiscounted financial liabilities	**690,385**	**2,668,262**	**319,381**	**260,240**	**-**	**3,938,268**
As at December 31, 2006						
Due to other financial institutions and banks	-	79,858	185,025	20,016	-	**284,899**
Derivative financial instruments	-	447,206	-	-	-	**447,206**
Current accounts	582,552	-	-	-	-	**582,552**
Profit and loss sharing accounts	-	1,665,943	142,772	1,645	-	**1,810,360**
Other financial liabilities	-	624	382	38	-	**1,044**
Total undiscounted financial liabilities	582,552	2,193,631	328,179	21,699	-	**3,126,061**

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2007						
Contingent liabilities and other guarantees	**947,298**	**137,246**	**211,056**	**173,537**	**300,646**	**1,769,783**
Commitments	**346,571**	**-**	**-**	**-**	**-**	**346,571**
Total	**1,293,869**	**137,246**	**211,056**	**173,537**	**300,646**	**2,116,354**
December 31, 2006						
Contingent liabilities and other guarantees	565,773	117,233	144,651	88,316	133,524	1,049,497
Commitments	273,442	-	-	-	-	273,442
Total	839,215	117,233	144,651	88,316	133,524	1,322,939

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken the necessary precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks”.

The Board of Directors of the Group evaluates basic risks that can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the risk management group and senior management have taken necessary precautions to describe, evaluate, control and manage risks faced by the Group.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

Market Risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk.

Interest Risk

The Group operates in non-interest banking sector. The only interest risk sensitive financial asset of the Group is Sukuk, which is classified as held to maturity in the financial statements (Note 6). The Group assesses the interest risk arisen from this asset as insignificant to the financial statements.

Currency Risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the YTL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2007			December 31, 2006		
Currency	**Increase/decrease in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Increase/decrease in currency rate in %	Effect on profit before tax	Effect on equity
USD and Other	**+10**	**(2,859)**	**-**	+10	(2,989)	-
USD and Other	**-10**	**2,859**	**-**	-10	2,989	-
EUR	**+10**	**379**	**-**	+10	545	-
EUR	**-10**	**(379)**	**-**	-10	(545)	-

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

The concentrations of assets, liabilities and off balance sheet items :

December 31, 2007

	EUR	USD	OTHER	YTL	Total
Cash and balances with Central bank	9,490	13,778	371	131,869	155,508
Deposits with banks and financial institutions	50,803	343,007	6,412	21,209	421,431
Reserve deposits at the Central Bank	189,029	519	-	2,263	191,811
Financial assets – available-for-sale	-	577	-	-	577
Financial assets – held-to-maturity	-	5,852	-	-	5,852
Financial assets held for trading	-	-	-	133	133
Due from financing activities, net	558,062	998,296	-	1,191,287	2,747,645
Minimum finance lease payments receivable, net	74,724	59,192	-	27,024	160,940
Derivative financial instruments	-	709	29	3,240	3,978
Other assets	187	637	11,786	11,109	23,719
Construction projects, net	-	-	-	3,140	3,140
Investment properties, net	-	-	-	59,389	59,389
Financial assets held for sale, net	-	-	-	6,673	6,673
Property and equipment, net	-	19	-	69,723	69,742
Intangible assets, net	-	-	-	1,591	1,591
Deferred tax assets	-	-	-	7,886	7,886
Total assets	**882,295**	**1,422,586**	**18,598**	**1,536,536**	**3,860,015**
Due to other financial institutions and banks	13,073	420,245	-	-	433,318
Current and profit / loss sharing investors' accounts	681,024	900,863	15,211	1,372,572	2,969,670
Other liabilities	665	2,093	468	31,146	34,372
Provisions	-	-	-	3,226	3,226
Income taxes payable	-	-	-	7,816	7,816
Derivative financial instruments	-	125	-	6,522	6,647
Financial liabilities held for sale, net	-	-	-	544	544
Shareholders' equity	-	-	-	404,422	404,422
Total liabilities and equity	**694,762**	**1,323,326**	**15,679**	**1,826,248**	**3,860,015**
Net Balance Sheet Position	**187,533**	**99,260**	**2,919**	**(289,712)**	**-**
Net Off-Balance Sheet Position	**(183,743)**	**(131,232)**	**459**	**313,929**	**(587)**

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2006

	EUR	USD	OTHER	YTL	Total
Cash and balances with central bank	14,866	24,432	1,181	38,619	79,098
Deposits with banks and financial institutions	51,319	229,800	5,658	19,274	306,051
Reserve deposits at the Central Bank of Turkey	174,393	629	-	1,798	176,820
Investment securities					
- available-for-sale	-	1,012	-	-	1,012
Due from financing activities, net	360,746	659,458	-	1,056,764	2,076,968
Minimum financial lease payment receivable, net	64,272	76,447	-	22,828	163,547
Other assets	336	615	11	14,725	15,687
Construction projects, net	-	-	-	4,478	4,478
Intangible assets, net	-	-	-	1,724	1,724
Investment property, net	-	-	-	35,107	35,107
Property and equipment, net	-	47	-	71,923	71,970
Deferred tax assets	-	-	-	18,909	18,909
Derivative financial instruments	-	63	-	-	63
Total assets	**665,932**	**992,503**	**6,850**	**1,286,149**	**2,951,434**
Due to other financial institutions and banks	58,483	218,660	-	-	277,143
Current and profit/loss sharing investors' accounts	535,938	910,239	5,002	924,582	2,375,761
Income taxes payable	-	-	-	-	-
Other liabilities	265	1,065	-	24,054	25,384
Provisions	-	-	-	2,537	2,537
Derivative financial instruments	-	4	3	480	487
Total shareholders' equity	-	-	-	270,122	270,122
Total liabilities and equity	**594,686**	**1,129,968**	**5,005**	**1,221,775**	**2,951,434**
Net Balance Sheet Position	**71,246**	**(137,465)**	**1,845**	**64,374**	**-**
Net Off-Balance Sheet Position	**(65,799)**	**104,388**	**1,340**	**(40,460)**	**(531)**

Pricing Risk

The Group utilizes funds with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (BRSA) and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2007 and 2006, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

(Currency – In thousands of New Turkish Lira - YTL unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT (continued)

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with BRSA financial statements.

Regulatory capital

	2007	2006
Tier 1 capital	**378,008**	242,327
Tier 2 capital	**15,491**	6,725
Total capital	**393,499**	249,052
Risk weighted assets amount subject to market and operational risk	**2,672,367**	1,659,602

	Actual	**Required**	**Actual**	**Required**
Tier 1 capital ratio	**14.15%**	-	14.60%	
Total capital ratio	**14.72%**	12%	15.01%	12%

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2007, the fair value of financing and leasing receivables has been estimated as YTL 2,888,177 (December 31, 2006 – YTL 1,996,896) whereas their carrying amount is YTL 2,908,585 (December 31, 2006 – YTL 2,240,515).

Fair value of borrowings at amortized costs is estimated as YTL 432,544 (December 31, 2006 – YTL 277,143), whereas their carrying amount is YTL 433,318 (December 31, 2006 – YTL 277,143). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate to their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term. Fair value of held to maturity investment (Sukuk Bond) is estimated as YTL 5,884 (December 31, 2006 – nil), whereas their carrying amount is YTL 5,852 (December 31, 2006 – nil).

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

30. SUBSEQUENT EVENTS

a) The Bank has decided to postpone its initial public offer.

b) The Bank has disposed 65% of its shares in Auto Land to Baytik Capital Holding B.S.C in return for 975,000 USD and 35% of its shares to A'ayan Leasing and Investment Company in return for 525,000 USD with respect to sale agreement dated February 28, 2008.