Tekstil Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements Together With Independent Auditors' Report As at 31 December 2008

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi
27 March 2009

This report contains 1 page of independent auditors' report and 59 pages of consolidated financial statements together with their explanatory notes.

Tekstil Bankası Anonim Şirketi and Its Subsidiaries

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KPMG

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tekstil Bankası Anonim Şirketi:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tekstil Bankası Anonim Şirketi and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of Tekstil Bankası A.Ş. and its subsidiaries give a true and fair view of, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş

27 March 2009
Istanbul, Turkey

Tekstil Bankası Anonim Şirketi and Its Subsidiaries

CONSOLIDATED BALANCE SHEET
At 31 December 2008
(Currency – In thousands of New Turkish Lira (YTL))

	Notes	2008	2007
ASSETS			
Cash and balances with the Central Bank	4	87,530	87,362
Deposits with other banks and financial institutions	4	238,926	177,141
Other money market placements	4	369,154	-
Reserve deposits at the Central Bank	5	68,555	108,078
Trading securities	6	963	39,187
Derivative financial instruments	18	7,430	2,345
Loans and advances	9	1,622,832	2,190,075
Investment securities - available for sale	7	22,978	54,938
Cash collateral on securities borrowed	8	220,212	202,554
Investment securities - held to maturity	7	143,856	-
Assets held for sale	10	33,881	28,244
Property and equipment	11	76,702	78,820
Intangible assets	12	2,672	2,100
Deferred tax asset	17	4,044	6,910
Other assets	13	60,248	13,337
Total assets		**2,959,983**	**2,991,091**
LIABILITIES			
Deposits from banks	14	16,699	105,255
Deposits from customers	14	1,515,466	1,644,536
Other money market deposits	14	207,019	182,194
Derivative financial instruments	18	12,951	22,080
Funds borrowed	15	702,132	588,960
Other liabilities	16	53,962	55,566
Income tax payables	17	130	2,014
Provisions	16	4,046	3,963
Total liabilities		**2,512,405**	**2,604,568**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	19	420,000	300,000
Adjustment to share capital	19	4,108	13,557
Share capital premium		184	172
Unrealized gains on available for sale investments		(963)	910
Revaluation surplus on buildings		4,896	4,355
Translation reserve		(2,306)	(509)
Legal reserves and retained earnings	20	21,659	68,038
Total equity		**447,578**	**386,523**
Total equity and liabilities		**2,959,983**	**2,991,091**

The accompanying policies and explanatory notes on pages 5 through 59 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi and Its Subsidiaries

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008
(Currency – In thousands of New Turkish Lira (YTL))

	Notes	2008	2007
Interest income			
Interest on loans and advances		355,999	309,816
Interest on securities		57,975	50,657
Interest on deposits with other banks and financial institutions		16,088	13,087
Interest on other money market placements		956	-
Other interest income		1,131	7,349
Total interest income		**432,149**	**380,909**
Interest expense			
Interest on deposits		(212,649)	(149,650)
Interest on funds borrowed		(65,500)	(56,654)
Interest on other money market deposits		(24,767)	(42,019)
Other interest expense		(179)	(137)
Total interest expense		**(303,095)**	**(248,460)**
Net interest income		**129,054**	**132,449**
Provision for impairment of loans and advances	9	(36,410)	(12,666)
Net interest income after provision for impairment of loans and advances		**92,644**	**119,783**
Foreign exchange gain, net		8,921	7,847
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**101,565**	**127,630**
Other operating income			
Fees and commission income	24	14,346	15,736
Income from banking services		17,197	14,557
Gains from investment securities	7	1,250	1,133
Net trading income		3,107	3,513
Other income	26	5,039	5,732
		40,939	40,671
Other operating expenses			
Fees and commission expense	24	(4,076)	(3,638)
Salaries and employee benefits	25	(85,723)	(65,425)
Depreciation and amortization	11,12	(7,798)	(5,306)
Taxes other than on income		(2,644)	(2,510)
General and administrative expenses	27	(28,632)	(34,905)
Other expenses	28	(6,491)	(3,412)
		(135,364)	(115,196)
Profit from operating activities before income tax		**7,140**	**53,105**
Income tax – deferred	17	(2,838)	3,557
Income tax – current	17	(130)	(13,016)
Net profit for the year		**4,172**	**43,646**
Attributable to:			
Equity holders of the parent		4,172	43,646
Minority interest		-	-
Net profit		**4,172**	**43,646**
Earnings per share (YKR)	22	**0.10**	**1.45**

The accompanying policies and explanatory notes on pages 5 through 59 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi and Its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2008
(Currency – In thousands of New Turkish Lira (YTL))

		Attributable to equity holders of the parent								Minority Interest	Total Equity
	Notes	Share capital	Adjustment to share capital	Share capital premium	Unrealized gain in available for sale investments	Currency translation differences	Revaluation surplus on buildings	Legal reserves and Retained Earnings /	Total		
At 1 January 2007		300,000	13,557	172	829	(133)	-	24,392	338,817	-	338,817
Net change in unrealized gain on available- for -sale Investments		-	-	-	81	-	-	-	81	-	81
Currency translation difference		-	-	-	-	(376)	-	-	(376)	-	(376)
Revaluation gain on buildings		-	-	-	-	-	4,355	-	4,355	-	4,355
Total income and expense for the year recognized directly in equity		-	-	-	81	(376)	4,355	-	4,060	-	4,060
Net profit for the year		-	-	-	-	-	-	43,646	43,646	-	43,646
Total income for the year		-	-	-	81	(376)	4,355	43,646	43,646	-	43,646
At 31 December 2007 / 1 January 2008		**300,000**	**13,557**	**172**	**910**	**(509)**	**4,355**	**68,038**	**386,523**	**-**	**386,523**
Net change in unrealized gain on available- for -sale Investments		-	-	-	(1,873)	-	-	-	(1,873)	-	(1,873)
Currency translation difference		-	-	-	-	(1,797)	-	-	(1,797)	-	(1,797)
Revaluation gain on buildings		-	-	-	-	-	541	-	541	-	541
Total income and expense for the year recognized directly in equity		-	-	-	(1,873)	(1,797)	541	-	(3,129)	-	(3,129)
Net profit for the year		-	-	-	-	-	-	4,172	4,172	-	4,172
Total income for the year		-	-	-	(1,873)	(2,306)	541	4,172	4,172	-	4,172
Increase in paid in capital	19	120,000	(9,449)	-	-	-	-	(50,551)	60,000	-	60,000
Share capital premium		-	-	12	-	-	-	-	12	-	12
At 31 December 2008		**420,000**	**4,108**	**184**	**(963)**	**(2,306)**	**4,896**	**21,659**	**447,578**	**-**	**447,578**

The accompanying policies and explanatory notes on pages 5 through 59 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2008
(Currency – In thousands of New Turkish Lira (YTL))

	Notes	2008	2007
Cash flows from operating activities			
Interest received		414,827	382,143
Interest paid		(307,437)	(250,829)
Fees and commissions received		14,346	15,736
Income from banking services		17,197	14,557
Trading income		4,357	4,646
Recoveries of loans previously written off and impaired loans		4,167	1,036
Fees and commissions paid		(4,076)	(3,638)
Cash payments related to employee benefits and similar items		(85,640)	(66,570)
Cash received from other operating activities		2,852	25,799
Cash paid for other operating activities		(43,523)	(44,409)
Income taxes paid		(1,948)	(11,002)
Cash flows from operating activities before changes in operating assets and liabilities		**15,122**	**67,469**
Changes in operating assets and liabilities			
Trading securities		36,929	58,234
Reserve deposits at Central Bank		38,814	(3,747)
Loans and advances		518,411	(457,668)
Other assets		(46,910)	(2,251)
Deposits from other banks		(88,223)	(27,048)
Deposits from customers		(130,680)	269,368
Other money market deposits		24,825	(94,155)
Other liabilities		(1,674)	17,312
Net cash provided by / (used in) operating activities		**351,492**	**(239,955)**
Cash flows from investing activities			
Purchases of available for sale securities		(108,949)	(108,802)
Proceeds from sale and redemption of available for sale securities		35,414	80,791
Purchases of held to maturity securities		(42,288)	-
Proceeds from sale of assets held for sale		6,383	2,512
Purchases of property and equipment	11	(4,151)	(7,187)
Proceeds from the sale of property and equipment		138	61
Purchase of intangible assets	12	(1,366)	(1,616)
Net cash used in investing activities		**(114,819)**	**(34,241)**
Cash flows from financing activities			
Proceeds from funds borrowed		656,422	318,451
Repayments of funds borrowed		(537,625)	(383,368)
Share capital increase		60,000	-
Net cash used in / (provided by) financing activities		**178,797**	**(64,917)**
Net increase/(decrease) in cash and cash equivalents		430,592	(271,644)
Cash and cash equivalents at the beginning of year		263,074	534,718
Cash and cash equivalents at the end of year	4	**693,666**	**263,074**

The accompanying policies and explanatory notes on pages 5 through 59 form an integral part of these consolidated financial statements.

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(Currency – In thousands of New Turkish Lira (YTL))

1. CORPORATE INFORMATION

General

Tekstil Bankası Anonim Şirketi (a Turkish joint stock company – "Tekstilbank" or "the Bank") is incorporated on 29 April 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul. Certain ordinary shares of the Bank, representing 24.50% of the total, are listed on the Istanbul Stock Exchange since May 1990.

The registered office address of the Bank is located at Büyükdere Caddesi, No. 63, Maslak 34398 Istanbul/Turkey.

The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

Nature of Activities of the Bank / Group

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

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2008 and 2007 are as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding And Voting Rights (%)	
The Euro Textile Bank Ltd. ("ETB") (*)	Lefkosa/Cyprus	Banking	99.99	99.99
Tekstil Menkul Değerler A.Ş. ("Tekstil Menkul")	Istanbul/Turkey	Brokerage	99.92	99.92
Tekstil Bilişim Hizmetleri A.Ş. ("Tekstil Bilişim")	Istanbul/Turkey	Information Technology	99.97	99.97

(*) At 21 January 2009, with the approval of local legislation, the title of the subsidiary "The Euro Textile Bank Ltd." has been changed as "The Euro Textile International Banking Unit Ltd." in accordance with the Ordinary General Meeting decision dated 17 November 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, trading securities, available-for-sale financial assets and buildings that have been measured at fair value.

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation. The foreign subsidiary maintains its books of account and prepares its statutory financials in US Dollars and in accordance with the regulations of the Turkish Republic of North Cyprus in which it operates. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with International Financial Reporting Standards ("IFRS") in New Turkish Lira ("YTL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Use of Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of available-for-sale equity instruments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

(b) Impairment on property and equipment

After recognition, the Group assesses the recoverable amount of its property and equipment. In assessing whether there is any indication that an impairment loss recognized in prior periods for the property and equipment may no longer exists or may have decreased, the Group considers the asset's value in use and the expected cash inflows that are largely independent of the cash inflows from other assets.

Estimation Uncertain

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment Losses on Loans and Advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of loans and advances as of 31 December 2008 is YTL 1,622,832 (2007 – YTL 2,190,075) net of allowance for impairment of YTL 30,066 (2007 – YTL 28,892).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Fair Value of Derivatives and Other Financial Instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 31.

(c) Income Taxes

The Bank and its subsidiary Tekstil Menkul are subject to income taxes in Turkey and ETB is subject to income taxes in the Turkish Republic of North Cyprus. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly. As of 31 December 2008, the Group carries a net deferred tax asset amounting to YTL 4,044 (2007 – YTL 6,910).

(d) Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations disclosed in Note 16 are reviewed regularly. The carrying value of provision for employee termination benefit as of 31 December 2008 is YTL 1,456 (2007 – YTL 1,454).

2.3 Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiary Which Operate in Turkey:

The Bank’s and Tekstil Menkul’s functional and presentation currency is YTL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of YTL.

Functional Currencies of Foreign Subsidiaries:

As of 31 December 2008 and 2007, ETB’s functional currency is US Dollars.

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December each year.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group 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 Group controls another entity.

(Currency – In thousands of New Turkish Lira (YTL))

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights.

2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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

	YTL/ EUR (full)	YTL/ USD (full)
31 December 2006	1.8515	1.4056
31 December 2007	1.7102	1.1647
31 December 2008	2.1408	1.5123

The assets and liabilities of the foreign subsidiary (of which does not have the currency of a hyperinflationary economy) are translated into the presentation currency of the Group ("YTL") at the rate of exchange ruling at the balance sheet date. The income statement of the foreign subsidiary is translated at yearly average of exchange rates and the difference of translation at the average exchange rates for the year is recorded as currency translation differences in equity. On consolidation exchange differences arising from the translation of the net investment in foreign entity is included in equity as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement as a component of the gain or loss on disposal.

2.6 Property and Equipment

Owned Assets

The cost of the property and equipment purchased before 31 December 2005 are restated for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses except for buildings. Buildings are recorded at the fair value and the amounts over carrying value of the buildings are recorded as revaluation surplus under the shareholder's equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased Assets

Leases in terms of which the Bank and its subsidiaries assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the consolidated income statement.

Subsequent Expenditures

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the consolidated income statement as incurred.

Depreciation

Property and equipment are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition.

The estimated useful lives are as follows:

Buildings	50 years
Machinery and equipment	4 – 10 years
Office equipment, furniture and fixtures	3 – 33 years
Motor vehicles	4 – 5 years
Leasehold improvements	Lease period

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

2.7 Assets Held for Sale

Assets held for sale are stated at cost less accumulated depreciation and any impairment in value. Buildings classified as assets held for sale are depreciated on a straight-line basis over the estimated useful life of 50 years, and machinery and equipment are depreciated over useful life of 5 years.

Assets held for sale are derecognized when either they have been disposed of or when the assets held for sale are 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 asset held for sale are recognized in the consolidated income statement in the year of retirement or disposal.

Transfers are made to assets held for sale when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from assets held for sale when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale.

2.8 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. 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 against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives 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.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognition of 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 consolidated income statement when the asset is derecognized.

2.9 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. 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 or as available for sale, the change in value is recognized through profit or loss and in equity, respectively.

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 exist. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for Sale Financial Assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity's right to receive payment is established.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

Held to Maturity Financial Assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Bank for classifying investment securities as held-to-maturity for the current and the following two financial years.

2.10 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the consolidated balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are reclassified in the consolidated financial statements as cash collateral on securities borrowed when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

2.11 Offsetting Financial Instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its consolidated balance sheet when and only when it becomes a party to the contractual provisions of the instrument.

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 its 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.

The Group does not have any assets 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, that are recognized to the extent of the Group’s continuing involvement in the asset.

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 the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

2.13 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 original maturities of three months or less.

2.14 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 coming 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 interest or principal payments by more than 90 days;
(c) the Group 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 becoming 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 group, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, 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 interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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.

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 consolidated 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 loan 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 loan. Subsequent recoveries of amounts written off are included in the consolidated income statement.

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.

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 the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Interest -bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the amortization process.

2.16 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.

2.17 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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 interest expense.

2.18 Leases

The Group as Lessee

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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 the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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.

2.19 Income and Expense Recognition

Interest income and expense are recognized in the consolidated income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

Dividends are recognized when the shareholders' right to receive the payments is established.

2.20 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

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 at the balance sheet date.

Deferred Tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of deferred income 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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.

Income tax relating to items recognized directly in equity is recognized in equity.

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 deferred taxes relate to the same taxable entity and the same taxation authority.

2.21 Derivative Financial Instruments

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most 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, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.22 Fiduciary Assets

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

2.23 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Changes in Accounting Policies

New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations, announced by International Financial Reporting Interpretations Committee ("IFRIC") are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

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

- IFRIC 15 – *Agreements for the Construction of Real Estate* provides guidance on how to determine whether an agreement for the construction of real estate within the scope of IAS 11 – *Construction Contracts* or IAS 18 – *Revenue* and, accordingly, when revenue from the construction should be recognized. IFRIC 15, effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- IFRIC 17 – *Distributions of Non-Cash Assets to Owners* clarifies that:

  - a dividend payable should be recognized when the dividend is appropriately authorised and is no longer at the discretion of the entity.

  - an entity should measure the dividend payable at the fair value of the net assets to be distributed.

  - an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

  The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

  Recognizing the difficulty that entities would face in recognizing past distributions at their fair values the IFRIC requires prospective application of the guidance. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- Revised "IAS 1 – *Presentation of Financial Statements*", issued on 6 September 2007 by The International Accounting Standards Board ("IASB"). Main changes from the previous version are to require that an entity must

  - Present all non-owner changes in equity either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity.

  - Present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement.

  - Disclose income tax relating to each component of other comprehensive income.

  - Disclose reclassification adjustments relating to components of other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 changes the titles of financial statements as they will be used in IFRSs:

- 'balance sheet' will become 'statement of financial position'

- 'income statement' will become 'statement of comprehensive income'

- 'cash flow statement' will become 'statement of cash flows'.

The revised IAS 1 will be applicable starting from 1 January 2009.

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

- The amendments to IAS 39 – *Financial Instruments: Recognition and Measurement:*

  - clarify that derivatives can be reclassified into or out of the fair value through profit or loss category, when they are designated as hedging instruments or when they are de-designated as hedging instruments respectively.

  - amends the definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

  - remove references to the need to designate hedging instruments at the segment level, in order to eliminate a conflict with IFRS 8 – *Operating Segments*.

  - clarify that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used, when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting.

  The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- On 17 January 2008, the IASB published final amendments to IFRS 2 – *Share Based Payments* to clarify the terms "vesting conditions" and "cancellations" as follows:

  - Vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Under IFRS 2, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. The fair value also includes market-related vesting conditions.

  - All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognized, that would otherwise have been charged, is recognized immediately. Any payment made with the cancellation is accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognized as an expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- On 29 March 2007, the IASB issued a revised IAS 23 – *Borrowing Costs*. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such assets. The revised IAS 23 does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.
- The amendments to IAS 23 – *Borrowing Costs* amended the definition of borrowing costs so that interest expense is calculated using the effective interest method defined in IAS 39 – *Financial Instruments: Recognition and Measurement*. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.
- The amendments to IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* requires an entity which is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale when the criteria for classification as held for sale in IFRS 5 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* states that these amendments are applied prospectively from the date of transition to IFRSs. The amendment is effective for annual periods beginning on or after 1 July 2009, although entities are permitted to adopt them earlier if the amendments to IAS 27 – *Consolidated and Separate Financial Statements* also are applied, is not expected to have any impact on the consolidated financial statements of the Group.
- IASB has completed the second phase of its business combinations project by issuing a revised version of IFRS 3 – *Business Combinations* and an amended version of IAS 27 – *Consolidated and Separate Financial Statements* which also brings revisions to IAS 28 – *Investments in Associates* and IAS 31 – *Interest in Joint Ventures*.

  Accordingly, the acquirer can elect to measure any non-controlling (minority) interest at:

  - fair value at the date of acquisition, which means that goodwill includes a portion attributable to the non-controlling interests; or

  - its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, which means that goodwill relates only to the controlling interest acquired by the parent.

  This election is made on a transaction-by-transaction basis.

  The new requirements take effect on 1 July 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* and IAS 27 – *Consolidated and Separate Financial Statements* respond to constituents' concerns that retrospectively determining cost and applying the cost method in accordance with IAS 27 on first-time adoption of IFRSs cannot, in some circumstances, be achieved without undue cost or effort. The amendments address that issue:

  - by allowing first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and

  - by removing the definition of the cost method from IAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor.

  The amendments to IAS 27 also respond to queries regarding the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganisation. The amendments require the new parent to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganization.

  The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 27 – *Consolidated and Separate Financial Statements* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 28 – *Investments in Associates* (and consequential amendments to IAS 32 – *Financial Instruments: Presentation*, and IFRS 7 – *Financial Instruments: Disclosures*) clarify that after applying the equity method, any additional impairment recognized by the investor with respect to its investment in an associate should not be allocated to any assets, including goodwill, that constitute the carrying amount of the investment. The amendments also clarify that reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- In accordance with the amendments to IAS 27 – *Consolidated and Separate Financial Statements*, IAS 39 – *Financial Instruments: Recognition and Measurement* would continue to be applied where an investment in a subsidiary that is accounted for under IAS 39, is classified as held for sale under IFRS 5 – *Non-Current Assets Held-for-Sale and Discontinued Operations*. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 28 – *Investments in Associates* (and consequential amendments to IAS 32 – *Financial Instruments: Presentation* and IFRS 7 – *Financial Instruments: Disclosures* requires that only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 and IFRS 7, where an investment in associate is accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The amendments to IAS 31 – *Interests in Joint Ventures* (and consequential amendments to IAS 32 – *Financial Instruments: Presentation* and IFRS 7 – *Financial Instruments: Disclosures* requires that only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 and IFRS 7, where an investment in associate is accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 16 – *Property, Plant and Equipment* bring changes for presentation issues that arise from assets that are rented and then subsequently sold on a routine basis. The amendment results in such assets being transferred to inventories at their carrying amount when they cease to be rented and become held for sale and the proceeds from the sale of such assets would be recognized as revenue in accordance with IAS 18 – *Revenue*. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 36 - *Impairment of Assets* requires that disclosures equivalent to those for value-in-use calculation should be made, where fair value less costs to sell is calculated on the basis of discounted cash flows. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the disclosures of the Group.

- The amendments to IAS 38 – *Intangible Assets* clarify that:

  - expenditure in respect of advertising and promotional activities should be recognized as an expense when the benefit of those goods or services is available to the entity; for example, in respect of the acquisition of goods, an expense should be recognized when the entity has the right to access those goods;

  - a prepayment should be recognized only for payments made in advance of the receipt of the corresponding goods or services; and

  - catalogues are considered to be a form of advertising and promotional material rather than inventory.

  The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 38 – *Intangible Assets* remove the observation that there is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method. The IASB has deleted this observation in order to avoid giving the impression that the units-of-production amortisation method is not allowed if it results in a lower amount of accumulated amortisation than under the straight-line method. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The amendments to IAS 19 – *Employee Benefits:*

  - specify that the distinction between short-term and long-term employee benefits is that short-term employee benefits are those that are due to be settled within 12 months of the end of the period in which the employee renders the related service. As a result, the amendment replaces in IAS 19 the term "fall due" in the definition of short-term employee benefits with the term "due to be settled" and replaces the term "do not fall due" in the definition of other long-term employee benefits with the term "are not due to be settled".

  - clarify that the deduction of plan administration costs is appropriate only to the extent that they are not reflected in the measurement of the defined benefit obligation. In other words, costs of administering the plan may be either recognized in the return on plan assets or included in the actuarial assumptions used to measure the defined benefit obligation.

  - clarify that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance* bring that the benefit of a belowmarket rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*, and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 29 – *Financial Reporting in Hyperinflationary Economies* require to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment is effective for annual periods beginning on or after 1 January 2009, is not expected to have any impact on the consolidated financial statements of the Group.

- The amendments to IAS 40 – *Investment Property* bring that the property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, is not expected to have any impact on the consolidated financial statements of the Group.

(Currency – In thousands of New Turkish Lira (YTL))

3. SEGMENT INFORMATION

Business Segments

The Group is organized into 3 main business segments, which are organized and managed separately according to the nature of the products and services provided.

Year ended 31 December 2008

	Retail banking	Corporate, Commercial & SME banking	Other Operations	Total
Operating income	23,460	72,804	46,240	**142,504**
Operating expenses	(23,331)	(48,939)	(63,094)	**(135,364)**
Income/loss from operations	**129**	**23,865**	**(16,854)**	**7,140**
Taxation charge	-	-	(2,968)	**(2,968)**
Net income for the period	**129**	**23,865**	**(19,822)**	**4,172**
Assets and Liabilities				
Segment assets	240,527	1,383,866	1,335,485	**2,959,878**
Investments in equity participations	-	-	105	**105**
Total assets	**240,527**	**1,383,866**	**1,335,590**	**2,959,983**
Segment liabilities	1,120,410	411,755	980,240	**2,512,405**
Shareholders' equity	-	-	447,578	**447,578**
Total liabilities and shareholders' equity	**1,120,410**	**411,755**	**1,427,818**	**2,959,983**

Year ended 31 December 2007

	Retail banking	Corporate, Commercial & SME banking	Other Operations	Total
Operating income	21,769	92,631	53,901	**168,301**
Operating expenses	(20,289)	(40,302)	(54,605)	**(115,196)**
Income/loss from operations	**1,480**	**52,329**	**(704)**	**53,105**
Taxation charge	-	-	(9,459)	**(9,459)**
Net income for the period	**1,480**	**52,329**	**(10,163)**	**43,646**
Assets and Liabilities				
Segment assets	178,330	2,011,745	800,859	**2,990,934**
Investments in equity participations	-	-	157	**157**
Total assets	**178,330**	**2,011,745**	**801,016**	**2,991,091**
Segment liabilities	1,007,892	853,828	742,848	**2,604,568**
Shareholders' equity	-	-	386,523	**386,523**
Total liabilities and shareholders' equity	**1,007,892**	**853,828**	**1,129,371**	**2,991,091**

(Currency – In thousands of New Turkish Lira (YTL))

3. SEGMENT INFORMATION (continued)

Geographical Segments

The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment assets and revenue from customers outside of Turkey do not exceed 10% of total Group assets and total Group revenue. Group liabilities from outside of Turkey, YTL 675,362, constitute 27% of Group liabilities, which is mainly composed of funds borrowed amounting to YTL 528,949 and YTL 75,127 from the European Union region and United States of America / Canada region, respectively. The remaining amount includes mainly deposits from European Union region.

4. CASH AND CASH EQUIVALENTS

	2008	2007
Cash on hand	20,988	19,650
Balances with Central Bank	66,542	67,712
Cash and balances with central banks	**87,530**	**87,362**
Deposits with other banks and financial institutions	**238,926**	**177,141**
Other money market placements	**369,154**	**-**
Cash and cash equivalents in the balance sheet	**695,610**	**264,503**
Less: Income accrual	(1,944)	(1,429)
Cash and cash equivalents in the cash flow statement	**693,666**	**263,074**

As of 31 December 2008 and 2007, deposits and placements are as follows:

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with central banks	32,200	34,342	12.55%	0.15% - 1.18%	27,444	40,268	13.16%	1.88% - 2.19%
Deposits with other banks and financial institutions	60,034	178,892	15.00%	0.15% - 3.85%	15,626	161,515	17.20 – 17.60%	4.25% - 5.10%
Other money market placements	369,154	-	15.00%	-	-	-	-	-
Total	**461,388**	**213,234**			**43,070**	**201,783**		

(Currency – In thousands of New Turkish Lira (YTL))

5. RESERVE DEPOSITS AT THE CENTRAL BANK

	2008	2007
- Foreign currency	68,555	108,078
Total	**68,555**	**108,078**

According to the regulations of the Central Bank of Turkish Republic ("the Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day to day operations.

As of 31 December 2008 and 2007, reserve deposit rates applicable for New Turkish Lira and foreign currency liability accounts with the Central Bank are 6% and 9%, respectively (2007 – 6% and 11%).

As of 31 December 2008, the interest rates applied for New Turkish Lira reserve deposits by the Central Bank is 12%. Starting from 5 December 2008, the Central Bank has stopped paying interest over foreign currencies. As of 31 December 2007, the interest rates applied for New Turkish Lira, USD and EUR reserve deposits by the Central Bank are 11.81%, 1.95% and 1.80%, respectively.

6. TRADING SECURITIES

Trading Securities:

	2008		2007	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Debt instruments				
Turkish government bonds	507	16.45-17.30	14,686	16.36-19.81
Turkish treasury bills	83	16.70-16.92	335	15.96-16.15
Foreign currency government bonds	86	2.83-5.56	209	4.95-6.82
Eurobonds issued by the Turkish government	287	5.85-8.81	23,957	5.28-5.89
Total trading securities	**963**		**39,187**	

Trading debt securities have fixed rates.

As of 31 December 2008, none of the trading securities are kept as collateral or guarantee. As of 31 December 2007, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 28,921 and YTL 27,962, respectively.

Derivative financial instruments held for trading purposes:

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

(Currency – In thousands of New Turkish Lira (YTL))

7. INVESTMENT SECURITIES

Available for Sale Securities

	2008		2007	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Equity securities	279	-	-	-
Debt instruments				
Turkish government bonds	1,882	18.84-23.14	37,480	16.59-19.21
Turkish corporate bonds	11,918	8.84	17,458	7.98-11.16
Eurobonds issued by Turkish government	8,899	7.51	-	-
Total available for sale securities at fair value	**22,978**		**54,938**	

As of 31 December 2008, YTL 11,918 (2007 – YTL 53,399) of available for sale securities have floating interest rates and the remaining portion has fixed rates.

The movement in available for sale securities is summarized as follows:

Available for Sale Securities	**2008**	**2007**
At 1 January	54,938	52,309
Exchange differences	2,642	(3,634)
Purchases	245,109	173,473
Transfer to cash collateral on securities borrowed	-	(123,246)
Transfer to held to maturity securities	(240,002)	-
Disposals (sale or redemption)	(39,709)	(43,964)
At 31 December	**22,978**	**54,938**

Gains and losses from investment securities comprise:

	2008	**2007**
Derecognition of available-for-sale securities	1,250	1,133
	1,250	**1,133**

Held to Maturity Securities

	2008		2007	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Debt instruments				
Turkish government bonds	143,856	17.87-21.00	-	-
Total available for sale securities at fair value	**143,856**		**-**	

As of 31 December 2008, YTL 195,958 of held to maturity securities (including cash collateral on securities borrowed – Note 8) have floating interest rates and the remaining portion has fixed rates.

(Currency – In thousands of New Turkish Lira (YTL))

7. INVESTMENT SECURITIES (continued)

The movement in held to maturity securities is summarized as follows:

Held to Maturity Securities	2008	2007
At 1 January	-	-
Purchases	46,531	-
Transfer from trading securities	77,535	-
Transfer from available for sale securities	240,002	
Transfer to cash collateral on securities borrowed	(220,212)	-
Disposals (sale or redemption)	-	-
At 31 December	**143,856**	**-**

As of 31 December 2008, YTL 3,801 of held to maturity securities are kept as a guarantee for stock exchange and other money market operations.

The Group has reclassified marketable securities with notional amounts of YTL 69,928 and YTL 246,225 from trading securities and available for sale securities, respectively, to held to maturity securities within the change of its intention of keeping such securities and according to the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments and Disclosures, issued by IASB on 13 October 2008. Such trading and available for sale securities are recorded in held to maturity portfolio with their fair values as of the date of the reclassification, amounting to YTL 75,272 and YTL 233,031, respectively. As of the date of reclassification, negative difference of YTL 620, resulting from re-measurement of available for sale securities was recorded under equity accounts. Such difference will be transferred to profit or loss accounts until the redemption dates of such securities. As of 31 December 2008, the remaining negative difference is YTL 444. As of the date of reclassification, the positive difference of YTL 1,524 resulting from the re-measurement of trading securities is directly recognized under profit or loss accounts. In the movement presentations above, such securities transferred from trading and available for sale securities are shown with their book values as of balance sheet date.

8. CASH COLLATERAL ON SECURITIES BORROWED

Carrying value of securities pledged under repurchase agreements is as follows:

	2008	2007
Trading securities	-	79,308
Available for sale securities	-	123,246
Held to maturity securities	220,212	-
Total	**220,212**	**202,554**

Repurchase agreements mature within one month.

Carrying value of securities that are related to liabilities is as follows:

	2008	2007
Trading securities	-	72,786
Available for sale securities	-	108,882
Held to maturity securities	206,643	-
Total	**206,643**	**181,668**

(Currency – In thousands of New Turkish Lira (YTL))

9. LOANS AND ADVANCES

	2008						
	Amount				Effective interest rate		
	New Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	New Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	675,827	311,999	368,741	1,356,567	15.1-63.2	2.4-16.6	5.0-15.0
Consumer loans	164,401	-	35,819	200,220	11.2-31.7	-	4.5-12.0
Credit cards	42,351	395	-	42,746	67.5	2.5	-
Total loans	882,579	312,394	404,560	1,599,533			
Loans in arrears	53,365	-	-	53,365			
Less: Allowance for losses on loans and advances	(30,066)	-	-	(30,066)			
Total	905,878	312,394	404,560	1,622,832			

	2007						
	Amount				Effective interest rate		
	New Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	New Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,183,273	470,364	358,108	2,011,745	13.0-46.1	3.3-10.0	3.5-12.6
Consumer loans	139,827	-	8,101	147,928	11.1-31.7	-	4.5-9.9
Credit cards	30,060	342	-	30,402	66.6	2.5	-
Total loans	1,353,160	470,706	366,209	2,190,075			
Loans in arrears	28,892	-	-	28,892			
Less: Allowance for losses on loans and advances	(28,892)	-	-	(28,892)			
Total	1,353,160	470,706	366,209	2,190,075			

The portfolio reserve amounting to YTL 6,824 (2007 – YTL 11,642) for impairment is provided based on past experience, management's assessments of the current economic conditions, the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

Movements in the allowance for impairment	**2008**	**2007**
Allowance at beginning of year	28,892	18,164
Charge for the year	40,031	13,658
Recoveries	(3,621)	(992)
Provision net of recoveries	36,410	12,666
Loans written off during the year	(35,236)	(1,938)
Allowance at end of year	**30,066**	**28,892**

As of 31 December 2008, loans and advances on which interest is not being accrued, or where interest is suspended amounted to YTL 53,365 (2007 – YTL 28,892).

As of 31 December 2008, YTL 452,762 (2007 – YTL 809,173) of loans and advances has floating interest rates and the remaining portion has fixed rates.

(Currency – In thousands of New Turkish Lira (YTL))

10. ASSETS HELD FOR SALE

Assets held for sale comprises property that is acquired from defaulted loan customers and will be mainly realized through sale.

	2008	2007
Opening balance at 1 January	28,244	23,897
Additions	12,008	6,828
Disposals	(4,857)	(2,278)
Provision for impairment	(1,198)	-
Depreciation	(316)	(203)
Closing balance at 31 December	**33,881**	**28,244**

As of 31 December 2008, the impairment on assets held for sale, which is based on independent expertise reports, is amounted to YTL 4,549 (2007 – YTL 3,351).

11. PROPERTY AND EQUIPMENT

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2008, net of accumulated depreciation and impairment	68,572	6,691	3,129	428	78,820
Additions	-	3,623	486	42	4,151
Disposals, net	-	(83)	(67)	-	(150)
Revaluation	569	-	-	-	569
Depreciation charge for the year	(3,221)	(1,996)	(1,295)	(176)	(6,688)
At 31 December 2008, net of accumulated depreciation and impairment	**65,920**	**8,235**	**2,253**	**294**	**76,702**
At 1 January 2008					
Cost	75,986	47,244	8,445	834	132,509
Revaluation	4,584	-	-	-	4,584
Accumulated depreciation	(11,998)	(40,553)	(5,316)	(406)	(58,273)
Net carrying amount	**68,572**	**6,691**	**3,129**	**428**	**78,820**
At 31 December 2008					
Cost	75,986	41,306	8,353	876	126,521
Revaluation	5,153	-	-	-	5,153
Accumulated depreciation	(15,219)	(33,071)	(6,100)	(582)	(54,972)
Net carrying amount	**65,920**	**8,235**	**2,253**	**294**	**76,702**

(Currency – In thousands of New Turkish Lira (YTL))

11. PROPERTY AND EQUIPMENT (continued)

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2007, net of accumulated depreciation and impairment	65,512	3,603	1,859	616	71,590
Additions	-	4,626	2,561	-	7,187
Disposals, net	-	(45)	-	(16)	(61)
Revaluation	4,584	-	-	-	4,584
Depreciation charge for the year	(1,524)	(1,493)	(1,291)	(172)	(4,480)
At 31 December 2007, net of accumulated depreciation and impairment	**68,572**	**6,691**	**3,129**	**428**	**78,820**
At 1 January 2007					
Cost	75,986	49,339	5,894	1,152	132,371
Accumulated depreciation	(10,474)	(45,736)	(4,035)	(536)	(60,781)
Net carrying amount	**65,512**	**3,603**	**1,859**	**616**	**71,590**
At 31 December 2007					
Cost	75,986	47,244	8,445	834	132,509
Revaluation	4,584	-	-	-	4,584
Accumulated depreciation	(11,998)	(40,553)	(5,316)	(406)	(58,273)
Net carrying amount	**68,572**	**6,691**	**3,129**	**428**	**78,820**

12. INTANGIBLE ASSETS

Software Licenses and Other	**2008**	**2007**
Beginning of the year, net of accumulated amortization	2,100	1,108
Additions	1,366	1,616
Disposals, net	-	(1)
Amortization charge for the year	(794)	(623)
At the end of the year, net of accumulated amortization	**2,672**	**2,100**
Beginning of the year		
Cost	16,187	14,576
Accumulated amortization	(14,087)	(13,468)
Net carrying amount	**2,100**	**1,108**
At the end of the year		
Cost	17,542	16,187
Accumulated amortization	(14,870)	(14,087)
Net carrying amount	**2,672**	**2,100**

(Currency – In thousands of New Turkish Lira (YTL))

13. OTHER ASSETS

	2008	2007
Collaterals given (*)	38,575	4,225
Transitory receivables	13,388	247
Receivables from credit cards and debit cards	1,724	1,529
Prepaid expenses	1,614	2,137
Office supply inventory	746	400
Payments for mutual funds	259	854
Other equity participations (**)	105	157
Advances given	6	345
Others	3,831	3,443
	60,248	**13,337**

(*) As of 31 December 2008, the majority of collaterals are given against derivative transactions.
(**) As of 31 December 2008, YTL 52 provision has been provided for impairment on equity participations.

14. DEPOSITS

Deposits from Banks

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Demand	189	303	-	-	19	141	-	-
Time	16,207	-	14.75	-	99,910	5,185	15.95-18.50	3.35-5.15
Total	**16,396**	**303**			**99,929**	**5,326**		

Deposits from Customers

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Saving								
Demand	6,153	14,189	-	-	11,297	20,999	-	-
Time	728,688	379,734	10.45-27.38	1.26-8.56	473,519	503,289	10.49-21.03	2.22-6.69
	734,841	**393,923**			**484,816**	**524,288**		
Commercial and other								
Demand	42,344	23,864	-	-	69,139	37,731	-	-
Time	167,189	153,305	10.47-27.37	1.77-8.32	165,787	362,775	13.25-21.08	2.27-6.58
	209,533	**177,169**			**234,926**	**400,506**		
Total	**944,374**	**571,092**			**719,742**	**924,794**		

(Currency – In thousands of New Turkish Lira (YTL))

14. DEPOSITS (continued)

Other Money Market Deposits

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
- Due to customers	3,180	-	14.31-15.22	-	524	-	16.46-16.47	-
- Due to banks	203,463	-	13.49-15.11	-	181,144	-	17.09-18.66	-
	206,643	**-**			**181,668**	**-**		
Interbank deposits	376	-	15.01	-	526	-	17.58	-
Total	**207,019**	**-**			**182,194**	**-**		

15. FUNDS BORROWED

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Short term								
Fixed interest	22,660	181,531	13.42-18.92	1.82-6.86	28,454	106,839	12.49-17.21	4.54-6.75
Floating interest	-	369,951	-	2.90-5.16	-	153,325	-	5.79
Medium/long term								
Fixed interest	-	11,925	-	3.36-6.12	-	-	-	-
Floating interest	-	114,699	-	1.99-4.67	-	298,625	-	4.70-6.68
Finance lease	-	1,366	-	-	-	1,717	-	-
Total	**22,660**	**679,472**			**28,454**	**560,506**		

Floating rate borrowings bear interest at rates fixed in advance for period of 6 months.

The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

Repayments of medium/long term borrowing are as follows:

	2008	2007
2008	-	249,007
2009	15,862	10,966
2010	48,894	11,864
2011	61,868	26,788
Thereafter	-	-
Total	**126,624**	**298,625**

(Currency – In thousands of New Turkish Lira (YTL))

15. FUNDS BORROWED (continued)

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2008 (2007 – none).

	2008	2007
Finance lease repayment schedule		
No later than 1 year	1,289	1,069
Later than 1 year and no later than 5 years	141	779
Total minimum finance lease obligations	**1,430**	**1,848**
Less amounts representing finance charges	(64)	(131)
Present value of minimum finance lease obligations	**1,366**	**1,717**
Representing finance lease liabilities, net	1,366	1,717
Current	1,229	969
Over 1 year	136	713
Over 2 years	1	31
Over 3 years	-	4
	1,366	**1,717**

16. OTHER LIABILITIES AND PROVISIONS

	2008	2007
Other liabilities		
Transfer orders	27,088	38,299
Taxes and funds payable	9,484	8,078
Payables for credit card settlements	7,344	1,212
Transitory payables	3,347	4,434
Advances taken	1,837	1,531
Blocked checks	171	35
Others	4,691	1,977
	53,962	**55,566**
Provisions		
Employee termination benefits	1,456	1,454
Employee vacation pay liability	2,590	2,509
	4,046	**3,963**
Total	**58,008**	**59,529**

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

	2008	2007
At 1 January	1,454	3,254
Interest cost	96	181
Effects of change in actuarial assumptions	40	(2,323)
Paid during the year	(2,278)	(380)
Provision for the year	2,144	722
At 31 December	**1,456**	**1,454**

(Currency – In thousands of New Turkish Lira (YTL))

16. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are 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 2.17 and YTL 2.03 at 31 December 2008 and 2007, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as of 31 December 2008 and 2007, the Group reflected a liability calculated using the Projected Unit Credit Method and based 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 on government bonds at the balance sheet date.

The annual ceiling has been increased to YTL 2.26 effective 1 January 2009.

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2008	2007
Discount rate	6.26	5.71
Expected rates of salary/limit increases	5.40	5.00

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated income statement in the period they occur.

17. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and in Cyprus (for its subsidiary).

In Turkey, effective from 1 January 2006 corporate tax rate is reduced to 20%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end 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.

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.

(Currency – In thousands of New Turkish Lira (YTL))

17. INCOME TAXES (continued)

The Bank and its subsidiary Tekstil Menkul are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. ETB is subject to tax legislation in North Cyprus.

As of 31 December 2008 and 2007, effective tax rate of consolidated foreign subsidiary established in Cyprus is 2%.

Major components of income tax expense for the years ended 31 December 2008 and 2007 are:

	2008	2007
Consolidated income statement		
Current income tax	130	13,016
Deferred income tax		
Relating to origination and reversal of temporary differences	2,838	(3,557)
Income tax expense reported in consolidated income statement	**2,968**	**9,459**

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
Profit before Income Tax	7,140	53,105
At Turkish statutory income tax rate of 20%	1,428	10,621
Effect of different tax rate	1,097	(795)
Tax exempt income	(114)	(75)
Non-deductible expenses	394	230
Current year losses for which no deferred tax asset was recognized	123	98
Others, net	40	(620)
Income tax expense	**2,968**	**9,459**

(Currency – In thousands of New Turkish Lira (YTL))

17. INCOME TAXES (continued)

Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Consolidated Balance Sheet		Recognized under Income Statement & Equity	
	2008	**2007**	**2008**	**2007**
Deferred income tax liabilities				
Valuation and depreciation differences of property and equipment	141	196	55	(196)
Accounting for finance leases	-	-	-	126
Gross deferred income tax liabilities	**141**	**196**	**55**	**(70)**
Deferred income tax assets				
Liability for defined benefit plans and unused vacation pay liability	791	764	27	(251)
Reserve for loan losses	1,035	1,887	(852)	895
Valuation differences of securities	804	188	616	36
Valuation differences of derivatives	1,127	3,991	(2,864)	2,488
Others	428	276	152	80
Gross deferred income tax assets	**4,185**	**7,106**	**(2,921)**	**3,248**
Net deferred income tax asset	**4,044**	**6,910**	**(2,866)**	**3,178**
Unrecognized portion for net deferred tax asset	**-**	**-**	**-**	**150**
Deferred income tax asset / (expense), net	**4,044**	**6,910**	**(2,866)**	**3,328**

Movement of net deferred tax liability/asset can be presented as follows:

	2008	**2007**
Deferred tax asset, net at 1 January	6,910	3,582
Deferred income tax recognized under income statement	(2,838)	3,557
Deferred income tax recognized under shareholders' equity (*)	(28)	(229)
Deferred tax asset, net at 31 December	**4,044**	**6,910**

(*) The change in deferred tax liability of YTL 28 results from the revaluation surplus on buildings and is recognized under shareholders' equity.

(Currency – In thousands of New Turkish Lira (YTL))

18. DERIVATIVES

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

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments. 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.

	2008			2007		
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Derivatives held for trading						
Forward purchase contract	2,239	3,787	270,403	90	15,691	200,928
Forward sale contract	4,177	1,461	269,121	1,445	36	218,565
Currency swap purchase	46	3,753	246,765	-	4,749	455,800
Currency swap sale	855	208	250,539	199	1,149	465,414
Options purchase contract	113	-	20,914	611	30	101,255
Options sale contract	-	130	20,913	-	425	101,217
Credit default swap contracts	-	3,612	120,984	-	-	-
Future stock sales	-	-	-	-	-	138
Total	**7,430**	**12,951**	**1,199,639**	**2,345**	**22,080**	**1,543,317**

The table below shows the the notional amounts of derivative instruments analyzed by the term to maturity.

31 December 2008	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency swaps:						
Purchases	217,870	25,794	3,101	-	-	246,765
Sales	220,176	27,152	3,211	-	-	250,539
Currency forwards:						
Purchases	147,936	114,246	8,221	-	-	270,403
Sales	146,850	114,168	8,103	-	-	269,121
Currency options:						
Purchases	14,905	6,009	-	-	-	20,914
Sales	14,903	6,010	-	-	-	20,913
Total of purchases	380,711	146,049	11,322	-	-	538,082
Total of sales	381,929	147,330	11,314	-	-	540,573
Credit default swaps	-	-	-	-	120,984	120,984
Total of transactions	**762,640**	**293,379**	**22,636**	**-**	**120,984**	**1,199,639**

(Currency – In thousands of New Turkish Lira (YTL))

18. DERIVATIVES (continued)

31 December 2007	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency swaps:						
Purchases	377,765	-	78,035	-	-	455,800
Sales	380,904	-	84,510	-	-	465,414
Currency forwards:						
Purchases	79,382	95,273	5,487	20,786	-	200,928
Sales	79,282	110,575	5,289	23,419	-	218,565
Currency options:						
Purchases	33,074	47,860	7,504	12,817	-	101,255
Sales	33,036	47,861	7,504	12,816	-	101,217
Total of purchases	490,221	143,133	91,026	33,603	-	757,983
Total of sales	493,222	158,436	97,303	36,235	-	785,196
Other (*)	-	-	-	-	-	138
Total of transactions	**983,443**	**301,569**	**188,329**	**69,838**	**-**	**1,543,317**

(*) Represents futures stock sales contract with a notional amount of YTL 138.

As of 31 December 2008 and 2007, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

19. SHARE CAPITAL

	2008	2007
Number of common shares, YTL 0.1 (in full YTL), par value (Authorized and issued)	4.200.000.000	3.000.000.000

As of 31 December 2008 and 2007, the Bank's subscribed and issued share capital in historical terms are YTL 420,000 and YTL 300,000, respectively.

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

	2008		2007	
	Number	YTL	Number	YTL
At 1 January	3.000.000.000	300,000	3.000.000.000	300,000
Shares issued in				
- cash	600.000.000	60,000	-	-
- retained earnings and reserves	600.000.000	60,000	-	-
At 31 December	**4.200.000.000**	**420,000**	**3.000.000.000**	**300,000**

At the current period the Bank increased its share capital by YTL 120,000, consisting of YTL 60,000 of cash, YTL 50,551 from retained earnings and YTL 9,449 from adjustment to share capital.

(Currency – In thousands of New Turkish Lira (YTL))

19. SHARE CAPITAL (continued)

As of 31 December 2008 and 2007, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

	2008		2007	
	Amount	%	Amount	%
GSD Holding A.Ş.	317,101	75.50	226,501	75.50
Publicly held	102,899	24.50	73,499	24.50
Total	**420,000**	**100.00**	**300,000**	**100.00**

20. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2008			2007		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At 1 January	**1,541**	**66,497**	**68,038**	**2,103**	**22,289**	**24,392**
Net profit for the year	-	4,172	4,172	-	43,646	43,646
Transfer from retained earnings	2,123	(2,123)	-	(562)	562	-
Transfer to capital increase	-	(50,551)	(50,551)	-	-	-
At 31 December	**3,664**	**17,995**	**21,659**	**1,541**	**66,497**	**68,038**

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

21. DIVIDENDS PAID AND PROPOSED

As of 31 December 2008 and 2007, the Group did not distribute any dividends to shareholders in respect of 2008 and 2007 profits.

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 parent 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 regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2008.

(Currency – In thousands of New Turkish Lira (YTL))

22. EARNINGS PER SHARE (continued)

There is no dilution of the shares as at 31 December 2008 and 2007.

The following reflects the income (in YKR) and share data used in the basic earnings per share computations

	2008	2007
Net profit attributable to ordinary equity holders of the parents for basic earnings per share	0.10	1.45
Weighted average number of ordinary shares for basic earnings per share	4.200.000.000	3.000.000.000

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 GSD Holding A.Ş. and owns 75.50% (2007 - 75.50%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and GSD Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates

Related party		Cash loans	Non-cash loans	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Shareholders	2008	8,392	-	2,566	-	433	635	-	-
	2007	6,884	20	2	-	339	218	-	-
Others(*)	2008	32,503	5,722	65,637	4,616	5,376	3,090	276	469
	2007	50,885	16,970	35,417	-	3,275	3,209	106	148
Directors' interests	2008	51	-	10,488	-	-	1,294	-	3,714
	2007	44	-	10,107	-	-	655	-	2,994

(*) Others represent the shareholders and group companies of GSD Holding.

Compensation of Key Management Personnel of the Group

For the year ended 31 December 2008, the executive and non-executive member of Board of Directors and management received remuneration and fees totaling approximately YTL 3,714 (2007 – YTL 2,994) comprising salaries and other short-term benefits.

24. FEE AND COMMISSION INCOME AND EXPENSE

	2008	2007
Fee and commission income		
Letters of guarantee	13,329	13,637
Letters of credit	1,017	2,099
Total	**14,346**	**15,736**
Fees and commission expense		
Corresponding bank fees	4,076	3,638
Total	**4,076**	**3,638**

(Currency – In thousands of New Turkish Lira (YTL))

25. SALARIES AND EMPLOYEE BENEFITS

	2008	2007
Staff costs		
Wages and salaries	63,954	50,885
Other fringe benefits	12,526	7,968
Cost of defined contribution plan (employers' share of social security premiums)	9,160	7,718
Provision for employee termination benefits and unused vacation pay liability	83	(1,146)
Total	**85,723**	**65,425**

As of 31 December 2008 and 2007, the number of employees is:

	2008	2007
The Bank	1,410	1,547
Subsidiaries	39	49
Total	**1,449**	**1,596**

26. OTHER INCOME

	2008	2007
Income from sale of property, equipment and assets held for sale	1,633	117
Fund management fee	1,276	1,493
Collections from loans written off in prior years	555	1,036
Others	1,575	3,086
Total	**5,039**	**5,732**

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Rent expenses	10,042	8,343
Communication expenses	3,458	3,008
Transportation expenses	2,744	2,267
Heating and lighting expenses	2,065	1,669
Maintenance expense	1,649	1,671
Advertising expenses	1,369	11,032
Insurance expenses	959	907
Computer expenses	234	297
Others	6,112	5,711
Total	**28,632**	**34,905**

(Currency – In thousands of New Turkish Lira (YTL))

28. OTHER EXPENSES

	2008	2007
Saving deposit insurance fund premium	2,393	1,895
Provision for impairment of assets held for sale	1,198	-
Consultancy expenses	786	584
Loss on sale of fixed assets	119	287
Other expenses	1,995	646
Total	**6,491**	**3,412**

29. COMMITMENTS AND CONTINGENCIES

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

	2008	2007
Letters of guarantee	822,215	1,075,302
Letters of credit	135,126	236,246
Acceptance credits	9,813	13,485
Other guarantees	37,015	45,343
Total non-cash loans	**1,004,169**	**1,370,376**
Other commitments	97,109	105,338
Credit card limits	206,354	203,517
Total	**1,307,632**	**1,679,231**

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of between 1 and 5 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancelable operating leases.

Litigation

(i) A customer has sued the Bank in year 1998 with the claim that his deposit money has been withdrawn from his account with forged documents. The amount is 1,299,213 Australian Dollars (equivalent to YTL 1,357). The trial is still in progress and no provision has been provided as professional legal advice indicates that it is unlikely that any loss will arise.

(ii) In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

29. COMMITMENTS AND CONTINGENCIES (continued)

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group also manages 4 open-ended investment funds (2007 - 4 open-ended investment funds) which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. Management fee and commission income received from investment funds amounted to YTL 1,276 for the year ended 31 December 2008 (2007 – YTL 1, 493).

As of 31 December 2008, the Group had investment custody accounts amounting to YTL 105,145 (2007 – YTL 89,555)

30. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board is assigned as Risk Supervisor heads the Risk Management Group. The Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Group reviews the latest figures and projections for the Bank's profit and loss accounts and balance sheet, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income

Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

30. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports those control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks, is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity, is performed daily. The risk concentration of the off-balance sheet transactions are followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

As at 31 December 2008, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 43% (2007 – 40%).

As at 31 December 2008, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 63% (2007 – 54%).

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit risk:

Loans and advances to customers	**31 December 2008**	**31 December 2007**
Individually impaired	53,365	28,892
Allowance for impairment (*)	(30,066)	(28,892)
Carrying amount	**23,299**	**-**
Collectively impaired	-	-
Allowance for impairment	-	-
Carrying amount	**-**	**-**
Past due but not impaired	42,171	14,136
Carrying amount	**42,171**	**14,136**
Neither past due nor impaired	1,557,199	2,175,610
Loans with renegotiated terms	163	329
Carrying amount	**1,557,362**	**2,175,939**
Total carrying amount	**1,622,832**	**2,190,075**

(*) As of 31 December 2008 allowance for impairment includes YTL 6,824 (2007 – YTL 11,642) of portfolio reserve, which is provided on past experience and management assessments of current economic environment and overall loan portfolio.

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off with the approval of board of directors after all the necessary procedures have been completed and the amount of the loss has been determined.

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

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

	Loans and advances to customers		Other assets (*)	
31 December 2008	**Gross**	**Net**	**Gross**	**Net**
Grade 6 : Individually Impaired	23,410	17,636	-	-
Grade 7 : Individually Impaired	17,443	9,243	-	-
Grade 8 : Individually Impaired	12,512	3,244	-	-
Portfolio reserve	-	(6,824)	-	-
Total	**53,365**	**23,299**	**-**	**-**
31 December 2007				
Grade 6 : Individually Impaired	7,462	5,879	-	-
Grade 7 : Individually Impaired	6,961	2,070	-	-
Grade 8 : Individually Impaired	14,469	3,693	-	-
Portfolio reserve	-	(11,642)	-	-
Total	**28,892**	**-**	**-**	**-**

(*) As of 31 December 2008 and 2007, the Group has no allowance for other assets such as loans and advances to banks and marketable securities. The Group has provided impairment for equity participations recorded under other assets and assets held for sale as of 31 December 2008 amounting to YTL 52 and 4,549, respectively (2007 – YTL 3,351 for assets held for sale, none for participations).

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

Cash Loans	**2008**	**2007**
Secured loans:	1,266,047	1,649,415
Secured by cash collateral	45,047	30,118
Secured by mortgages	425,219	345,362
Secured by government institutions or government securities	-	1,442
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	795,781	1,272,493
Unsecured loans	333,486	540,660
Impaired loans, net	23,299	-
Total	**1,622,832**	**2,190,075**

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

Non-cash Loans	2008	2007
Secured loans:	850,493	882,086
Secured by mortgages	10,152	12,252
Guarantees issued by financial institutions	78,496	24,319
Secured by cash collateral	-	352
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	761,845	845,163
Unsecured loans	153,676	488,290
Total	**1,004,169**	**1,370,376**

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

	2008	2007
Secured by mortgages	19,168	5,160
Pledge on vehicles	2,909	678
Other collateral	32	3,541
Unsecured	31,256	19,513
Total	**53,365**	**28,892**

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

By sector	2008	2007
Textile	9,920	9,393
Automotive	6,215	2,647
Chemistry and plastics	4,665	5,093
Food	3,151	2,146
Manufacturing	2,519	1,064
Agriculture and stockbreeding	1,246	110
Electronics	67	288
Finance	3	177
Consumer loans and credit cards	10,656	6,959
Other	14,923	1,015
Total non-performing loans and lease receivables	**53,365**	**28,892**

By geographic location	2008	2007
Turkey	53,365	28,892
Total non-performing loans and lease receivables	**53,365**	**28,892**

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

Industry exposure information for cash loans and non-cash loans is as follows:

	2008		2007	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Construction	168,423	364,485	274,435	429,526
Food and Beverage, Tobacco	168,720	39,280	212,285	78,964
Finance	78,963	102,888	220,220	144,619
Textile, Fabrics, Yarn Industry	127,298	41,213	190,556	75,302
Energy	82,245	67,540	61,253	90,800
Automotive Industry	104,438	38,757	113,148	36,054
Service	117,370	21,737	123,631	46,964
Manufacturing	61,796	55,141	100,584	89,745
Iron and Steel	32,218	46,965	108,244	95,670
Optics and Electrical Equipments	27,108	37,719	41,404	52,849
Chemical Industry	43,815	19,942	81,075	34,443
Main metal product, processed materials	41,602	18,243	46,660	16,104
Foreign Trade	27,978	31,551	30,270	49,119
Tourism	35,107	12,037	41,295	13,284
Agriculture	16,284	19,349	32,826	22,591
Paper Production and Publishing	10,664	9,834	34,164	9,559
Others	212,538	62,966	299,695	61,006
Corporate loans	1,356,567	989,647	2,011,745	1,346,599
Consumer loans	242,966	14,522	178,330	23,777
Loans in arrears	53,365	-	28,892	-
Provision for possible loan losses	(30,066)	-	(28,892)	-
Total	**1,622,832**	**1,004,169**	**2,190,075**	**1,370,376**

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the ISE Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the balance sheet, the maximum limits have been set by the Board of Directors.

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

Residual contractual maturities of financial liabilities (excluding derivatives)

31 December 2008	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	16,699	16,705	492	16,213	-	-	-	-
Deposits from customers	1,515,466	1,528,019	86,549	1,164,277	246,167	31,002	24	-
Other money market deposits	207,019	207,105	-	207,105	-	-	-	-
Funds borrowed	702,132	724,183	-	38,274	36,867	529,303	119,739	-
Other liabilities	58,138	58,138	53,962	-	130	-	4,046	-
Total	**2,499,454**	**2,534,150**	**141,003**	**1,425,869**	**283,164**	**560,305**	**123,809**	**-**

31 December 2007	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	105,255	106,808	160	39,346	67,302	-	-	-
Deposits from customers	1,644,536	1,652,826	139,166	1,279,332	197,734	36,587	7	-
Other money market deposits	182,194	182,278	-	182,278	-	-	-	-
Funds borrowed	588,960	615,870	-	23,456	33,259	499,299	59,856	-
Other liabilities	61,543	61,543	55,566	-	2,014	-	3,963	-
Total	**2,582,488**	**2,619,325**	**194,892**	**1,524,412**	**300,309**	**535,886**	**63,826**	**-**

Major part of the liquidity has been maintained by the saving deposits in the Bank. Additionally, the volume of saving deposits has retained a stable path during the period. On the contrary, the Bank executes the strategy of increasing long-term loans from international markets rather than loans from domestic secondary market.

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Unallocated	Total
As at 31 December 2008								
Assets								
Cash and balances with central banks	55,296	32,234	-	-	-	-	-	87,530
Deposits with other banks and financial institutions	4,194	234,732	-	-	-	-	-	238,926
Other money market placements	-	369,154	-	-	-	-	-	369,154
Reserve deposits at central banks	-	68,555	-	-	-	-	-	68,555
Trading securities	-	-	30	145	280	508	-	963
Derivative financial instruments	-	4,342	2,748	340	-	-	-	7,430
Loans and advances	-	551,410	387,272	160,362	151,277	349,212	23,299	1,622,832
Investment securities	279	-	-	-	-	22,699	-	22,978
Cash collateral on securities borrowed	-	-	-	-	79,901	140,311	-	220,212
Held to maturity securities	-	-	-	1,052	10,098	132,706	-	143,856
Assets held for sale	-	-	-	-	-	-	33,881	33,881
Property and equipment	-	-	-	-	-	-	76,702	76,702
Intangible assets	-	-	-	-	-	-	2,672	2,672
Deferred tax asset	-	-	-	-	-	4,044	-	4,044
Other assets	-	59,500	86	-	-	-	662	60,248
Total assets	**59,769**	**1,319,927**	**390,136**	**161,899**	**241,556**	**649,480**	**137,216**	**2,959,983**
Liabilities								
Deposits from other banks	492	16,207	-	-	-	-	-	16,699
Deposits from customers	86,550	1,156,577	242,370	16,077	13,872	20	-	1,515,466
Other money market deposits	-	207,019	-	-	-	-	-	207,019
Derivative financial instruments	-	5,175	3,815	349	-	3,612	-	12,951
Funds borrowed	-	38,168	36,773	76,454	439,838	110,899	-	702,132
Other liabilities	40,697	12,199	1,196	-	-	-	-	54,092
Provisions	-	-	-	-	-	-	4,046	4,046
Total liabilities	**127,739**	**1,435,345**	**284,154**	**92,880**	**453,710**	**114,531**	**4,046**	**2,512,405**
Net liquidity gap	**(67,970)**	**(115,418)**	**105,982**	**69,019**	**(212,154)**	**534,949**	**133,170**	**447,578**
As at 31 December 2007								
Total assets	**64,709**	**813,821**	**459,550**	**668,036**	**353,317**	**522,494**	**109,164**	**2,991,091**
Total liabilities	**195,179**	**1,521,259**	**309,665**	**82,234**	**441,684**	**50,584**	**3,963**	**2,604,568**
Net liquidity gap	**(130,470)**	**(707,438)**	**149,885**	**585,802**	**(88,367)**	**471,910**	**105,201**	**386,523**

Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "equity position risk" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the number, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

"Value at Risk" is calculated on a daily basis by employing Standard Approach, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results have been reported to the Senior Level Risk Committee and Asset-Liability Committee in regular periods. By regarding the VaR results, the risk of maturity mismatch has been examined in the Asset-Liability Management Committee and the necessary measures have been taken by the ALCO.

The consolidated value at market risks as of 31 December 2008 and 31 December 2007 calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.26333 dated 1 November 2006, are as follows:

	31 December 2008			31 December 2007		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	2,889	3,739	1,797	1,513	2,288	1,188
Common share risk	-	-	-	-	-	-
Currency risk	3,655	5,154	2,341	2,099	3,863	315
Commodity risk	-	-	-	14	167	-
Option risk	512	855	3	2	6	-
Total value at risk (12.5 times)	**88,200**	**107,163**	**74,313**	**45,350**	**65,363**	**30,475**

The adequate amount of capital that banks shall maintain against losses which may result from existing and potential risks, on a consolidated and unconsolidated basis especially for the General Market Risk and Specific Risk, has been calculated by employing the Standard Approach and reported on a monthly basis regarding the provisions of "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net asset position in foreign currencies, almost entirely in US Dollar, EURO and YTL.

The Group's foreign currency position risk is measured by "Standard Approach" and Internal Models. Level of share capital requirement is calculated by using Standard Approach.

The concentrations of assets, liabilities and off balance sheet items are as follows;

	New Turkish Lira	US Dollars	Euro	Others	Total
As at 31 December 2008					
Assets					
Cash and balances with central banks	41,527	41,087	4,607	309	87,530
Deposits with other banks and financial institutions	60,034	38,760	135,727	4,405	238,926
Other money market deposits	369,154	-	-	-	369,154
Reserve deposits at central banks	-	68,555	-	-	68,555
Trading securities	590	321	52	-	963
Derivative financial instruments	4,090	427	1,726	1,187	7,430
Loans and advances	905,878	468,451	197,800	50,703	1,622,832
Investment securities	1,882	21,096	-	-	22,978
Cash collateral on securities borrowed	220,212	-	-	-	220,212
Held to maturity securities	143,856	-	-	-	143,856
Assets held for sale	33,881	-	-	-	33,881
Property and equipment	76,700	2	-	-	76,702
Intangible assets	2,672	-	-	-	2,672
Deferred tax asset	4,044	-	-	-	4,044
Other assets	19,631	36,010	4,605	2	60,248
Total assets	**1,884,151**	**674,709**	**344,517**	**56,606**	**2,959,983**
Liabilities					
Deposits from other banks	16,396	252	51	-	16,699
Deposits from customers	944,374	383,589	183,589	3,914	1,515,466
Other money market deposits	207,019	-	-	-	207,019
Derivative financial instruments	3,480	7,343	1,587	541	12,951
Funds borrowed	22,660	460,687	217,993	792	702,132
Other liabilities	45,676	4,811	3,169	436	54,092
Provisions	4,046	-	-	-	4,046
Total liabilities	**1,243,651**	**856,682**	**406,389**	**5,683**	**2,512,405**
Net balance sheet position	**640,500**	**(181,973)**	**(61,872)**	**50,923**	**447,578**
Off-balance sheet position					
Net notional amount of derivatives	(190,233)	175,777	61,864	(49,899)	(2,491)
Net Position	**450,267**	**(6,196)**	**(8)**	**1,024**	**445,087**
At 31 December 2007					
Total assets	1,787,417	721,943	460,464	21,267	2,991,091
Total liabilities	1,092,371	1,191,306	316,636	4,255	2,604,568
Net balance sheet position	695,046	(469,363)	143,828	17,012	386,523
Off-balance sheet position	(333,974)	467,936	(145,027)	(16,148)	(27,213)
Net Position	361,072	(1,427)	(1,199)	864	359,310

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

Exposure to currency risk

A 10 percent devaluation of the YTL against the following currencies as at 31 December 2008 and 31 December 2007 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2008		31 December 2007	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	(620)	(560)	(143)	(143)
EUR	(1)	(1)	(120)	(120)
Other currencies	102	102	86	86
Total, net	**(519)**	**(459)**	**(177)**	**(177)**

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

Cash Flow and Fair Value Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2008								
Assets								
Cash and balances with central banks	32,234	-	-	-	-	-	55,296	87,530
Deposits with other banks and financial institutions	234,732	-	-	-	-	-	4,194	238,926
Other money market placements	369,154	-	-	-	-	-	-	369,154
Reserve deposits at central banks	68,555	-	-	-	-	-	-	68,555
Trading securities	8	30	144	280	265	236	-	963
Derivative financial instruments	4,342	2,748	340	-	-	-	-	7,430
Loans and advances	740,782	256,842	124,621	128,075	295,613	53,600	23,299	1,622,832
Investment securities	11,918	-	-	-	1,882	8,899	279	22,978
Cash collateral on securities borrowed	8,672	69,384	-	79,901	62,255	-	-	220,212
Held to maturity securities	59,763	58,139	1,052	10,098	14,804	-	-	143,856
Assets held for sale	-	-	-	-	-	-	33,881	33,881
Property and equipment	-	-	-	-	-	-	76,702	76,702
Intangible assets	-	-	-	-	-	-	2,672	2,672
Deferred tax asset	-	-	-	-	-	-	4,044	4,044
Other assets	-	-	-	-	-	-	60,248	60,248
Total assets	**1,530,160**	**387,143**	**126,157**	**218,354**	**374,819**	**62,735**	**260,615**	**2,959,983**
Liabilities								
Deposits from other banks	16,207	-	-	-	-	-	492	16,699
Deposits from customers	1,156,577	242,370	16,077	13,872	20	-	86,550	1,515,466
Other money market deposits	207,019	-	-	-	-	-	-	207,019
Derivative financial instruments	8,787	3,815	349	-	-	-	-	12,951
Funds borrowed	59,771	468,079	106,586	66,864	832	-	-	702,132
Other liabilities	-	-	-	-	-	-	54,092	54,092
Provisions	-	-	-	-	-	-	4,046	4,046
Total liabilities	**1,448,361**	**714,264**	**123,012**	**80,736**	**852**	**-**	**145,180**	**2,512,405**
Balance sheet interest sensitivity gap	**81,799**	**(327,121)**	**3,145**	**137,618**	**373,967**	**62,735**	**115,435**	**447,578**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2007								
Total assets	**1,610,639**	**344,372**	**345,512**	**187,436**	**270,884**	**38,128**	**194,120**	**2,991,091**
Total liabilities	**1,869,084**	**325,563**	**98,081**	**93,231**	**17,740**	**-**	**200,869**	**2,604,568**
Balance sheet interest sensitivity gap	**(258,445)**	**18,809**	**247,431**	**94,205**	**253,144**	**38,128**	**(6,749)**	**386,523**

The following table indicates the effective interest rates by major currencies for the major balance sheet components for 2008 and 2007:

31 December 2008	**EUR %**	**US Dollar %**	**Other currencies %**	**YTL %**
Cash and balances with Central Bank	1.18	0.15	-	12.55
Loans and advances to banks	2.18	0.30	-	16.18
Loans and advances to customers	9.50	8.30	7.51	28.63
Investment securities	5.26	7.64	-	19.26
Deposits from banks	-	-	-	15.89
Deposits from customers	5.66	5.66	0.50	23.23
Obligations under repurchase agreements	-	-	-	16.36
Funds borrowed	6.29	3.95	1.82	16.23

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

31 December 2007	EUR %	US Dollar %	Other currencies %	YTL %
Cash and balances with Central Bank	1.88	2.19	-	13.16
Loans and advances to banks	4.34	4.47	-	19.02
Loans and advances to customers	6.97	7.39	5.49	22.59
Investment securities	-	9.90	-	19.17
Deposits from banks	-	5.27	-	17.10
Deposits from customers	4.29	5.57	-	19.20
Obligations under repurchase agreements	-	-	-	17.05
Funds borrowed	5.41	6.37	-	15.26

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008. The sensivity of equity is calculated by revaluing available for sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2007. The following tables also include the sensitivity of trading portfolio of the Group.

	Profit or loss		Equity (*)	
31 December 2008	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets designated at fair value through profit or loss	(20)	20	(20)	20
Available for sale financial assets	-	-	(1,360)	1,360
Floating rate financial liabilities	(1,742)	1,748	(1,742)	1,748
Total, net	**(1,762)**	**1,768**	**(3,122)**	**3,128**

	Profit or loss		Equity (*)	
31 December 2007	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets designated at fair value through profit or loss	(211)	208	(211)	208
Available for sale financial assets	-	-	(361)	359
Floating rate financial liabilities	(743)	744	(743)	744
Total, net	**(954)**	**952**	**(1,315)**	**1,311**

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

Operational Risk

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

30. FINANCIAL RISK MANAGEMENT (continued)

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

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

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years 2005, 2006 and 2007. The amount calculated as YTL 20,061 as of 31 December 2008 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk is amounting to YTL 250,759.

Capital Adequacy

BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances (or portfolio provisions) and the element of the fair value reserve relating to unrealised gains on securities classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

(Currency – In thousands of New Turkish Lira (YTL))

30. FINANCIAL RISK MANAGEMENT (continued)

The regulatory capital and the capital adequacy ratio declared by the Bank as of 31 December 2008 is as follows:

31 December 2008	Consolidated	Bank Only
Amount subject to credit risk (I)	2,095,143	2,088,988
Amount subject to market risk (II)	86,925	87,563
Amount subject to operational risk (III)	250,759	245,194
Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)	**2,432,827**	**2,421,745**
Shareholders' equity	**426,066**	**434,460**
Shareholders' equity / (IV)	**17.5%**	**17.9%**
Tier 1 Capital	437,543	445,977
Tier 2 Capital	11,530	11,447
Deductions from Capital	(23,007)	(22,964)
Total Regulatory Capital	426,066	434,460
Risk-weighted assets and value at market risk (*)	2,432,827	2,421,745
Total regulatory capital expressed as a percentage of total risk-weighted assets and value at market risk	**17.5%**	**17.9%**
Total tier 1 capital expressed as a percentage of risk-weighted assets and value at market risk	**18.0%**	**18.4%**

(*) including operational risk

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2008	2007	2008	2007
Financial assets				
Loans and advances	1,622,832	2,190,075	1,601,864	2,188,763
	1,622,832	**2,190,075**	**1,601,864**	**2,188,763**
Financial liabilities				
Deposits from other banks	16,699	105,225	16,699	105,225
Deposits from customers	1,515,466	1,644,536	1,517,397	1,644,656
Funds borrowed	702,132	588,960	696,100	590,064
	2,234,297	**2,338,721**	**2,230,196**	**2,339,945**

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Loans and Advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks, deposits with banks, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

32. SUBSEQUENT EVENTS

(a) As of 31 December 2008, the number of employees of the Tekstil Bankası has been 1,410. During January 2009, the number of employees has been changed to 1,269. YTL 993 employee termination benefits, YTL 183 vacation pay liability and YTL 445 notification payment liability paid subsequent to the balance sheet date regarding such change are reflected in other liabilities and salaries and employee benefits accounts in the accompanying consolidated financial statements.

(b) The Group has sold a significant portion of its securities classified in held to maturity portfolio before the maturity dates of such securities.

(c) At 21 January 2009, within the approval of local legislation, the title of the subsidiary "The Euro Textile Bank Ltd." has been changed as "The Euro Textile International Banking Unit Ltd." in accordance with the Ordinary General Meeting decision dated 17 November 2008.

(d) According to the decree of the Council of Ministers numbered 2007/11963 and dated 4 April 2007, for the currency unit of the Republic of Turkey, the term "New" in the name of the national currency was removed on 1 January 2009.