KPMG

# Anadolubank Anonim Şirketi and Its Subsidiaries

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

23 February 2009

*This report includes 1 page of independent auditors' report and 56 pages of consolidated financial statements together with their explanatory notes.*

# Anadolubank Anonim Şirketi and Its Subsidiaries

**TABLE OF CONTENTS:**

Independent Auditors' Report

Consolidated Balance Sheet

Consolidated Income Statement

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

KPMG

**Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.**
Yapı Kredi Plaza C Blok Kat 17
Büyükdere Caddesi
Levent 34330 İstanbul

Telephone +90 (212) 317 74 00
Fax +90 (212) 317 73 00
Internet www.kpmg.com.tr

# Independent Auditors' Report

To the Board of Directors of Anadolubank Anonim Şirketi

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

*Management's responsibility for the financial statements*

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

*Auditors' responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements of Anadolubank Anonim Şirketi and its subsidiaries give a true and fair view of the consolidated financial position of the Group as at 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Istanbul, Turkey
23 February 2009

KPMG Akis Bağımsız Denetim ve SMMM AŞ

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

**Anadolubank Anonim Şirketi and Its Subsidiaries**
**Consolidated Balance Sheet**
**As at 31 December 2008**
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | 31 December 2008 | 31 December 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank | 8 | 269,209 | 337,784 |
| Deposits with banks and other financial institutions | 8 | 186,328 | 170,872 |
| Interbank money market placements | 8 | 91,198 | 110,047 |
| Financial assets at fair value through profit or loss | 9 | 35,031 | 4,672 |
| Derivative financial assets held for trading purpose | 10 | 20,882 | 10,430 |
| Investment securities | 11 | 747,052 | 396,634 |
| Loans and receivables | 12,13 | 2,341,474 | 1,904,116 |
| Reserve deposits at the Central Bank | 16 | 72,827 | 94,247 |
| Property and equipment | 14 | 18,174 | 21,536 |
| Intangible assets | 15 | 1,742 | 2,106 |
| Deferred tax assets | 21 | 20 | 4,953 |
| Other assets | 17 | 45,694 | 83,522 |
| **Total assets** | | **3,829,631** | **3,140,919** |
| **LIABILITIES** | | | |
| Deposits from banks | 18 | 33,614 | 1,741 |
| Deposits from customers | 18 | 2,416,601 | 1,909,336 |
| Obligations under repurchase agreements | 18 | 234,130 | 133,197 |
| Funds borrowed | 19 | 488,744 | 518,666 |
| Derivative financial liabilities held for trading purpose | 10 | 4,797 | 47,939 |
| Other liabilities and provisions | 20 | 104,615 | 143,424 |
| Income taxes payable | 21 | 1,818 | 5,293 |
| Deferred tax liabilities | 21 | 3,685 | 71 |
| **Total liabilities** | | **3,288,004** | **2,759,667** |
| **EQUITY** | | | |
| Share capital | 22 | 412,119 | 227,619 |
| Fair value reserves of available-for-sale financial assets | 22 | (5,946) | (6,891) |
| Currency translation adjustments | | 9,970 | (2,895) |
| Legal reserves and accumulated profits | | 124,101 | 162,102 |
| **Total equity attributable to equity holders of the Bank** | | **540,244** | **379,935** |
| **Minority interest** | 21 | **1,383** | **1,317** |
| **Total equity** | | **541,627** | **381,252** |
| **Total liabilities and equity** | | **3,829,631** | **3,140,919** |
| **Commitments and contingencies** | 26 | **1,382,809** | **1,511,006** |

*The notes on pages 6 to 56 are an integral part of these consolidated financial statements.*

**Anadolubank Anonim Şirketi and Its Subsidiaries**
**Consolidated Income Statement**
**As at and For the Year Ended 31 December 2008**
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | 31 December 2008 | 31 December 2007 |
|---|---|---|---|
| **Continuing operations:** | | | |
| ***Interest income:*** | | | |
| Interest on loans and receivables | | 415,834 | 313,290 |
| Interest on marketable securities | | 57,219 | 68,445 |
| Interest on deposits with banks and other financial institutions | | 16,435 | 30,398 |
| Interest on other money market placements | | 4,204 | 6,758 |
| Other interest income | | 1,416 | 5,548 |
| **Total interest income** | | **495,108** | **424,439** |
| ***Interest expense:*** | | | |
| Interest on deposits | | (227,743) | (178,884) |
| Interest on other money market deposits | | (15,231) | (16,773) |
| Interest on funds borrowed | | (27,843) | (37,768) |
| Other interest expense | | (110) | (3,566) |
| **Total interest expense** | | **(270,927)** | **(236,991)** |
| **Net interest income** | | **224,181** | **187,448** |
| Fees and commissions income | | 64,774 | 54,626 |
| Fees and commissions expense | | (10,214) | (10,506) |
| **Net fees and commissions income** | | **54,560** | **44,120** |
| ***Other operating income:*** | | | |
| Foreign exchange gains, net | | 30,230 | 11,131 |
| Other income | | 7,998 | 7,770 |
| **Total other operating income** | | **38,228** | **18,901** |
| ***Other operating expense:*** | | | |
| Salaries and employee benefits | 24 | (95,013) | (76,961) |
| Trading losses | | (40,105) | (23,574) |
| Provision for possible loan losses, net of recoveries | | (18,260) | (10,868) |
| Depreciation and amortization | | (6,973) | (5,836) |
| Taxes other than on income | | (3,898) | (2,737) |
| Other expenses | 25 | (39,390) | (34,876) |
| **Total other operating expense** | | **(203,639)** | **(154,852)** |
| **Income from operations** | | **113,330** | **95,617** |
| Income tax expense | 21 | (22,595) | (19,283) |
| **Profit from continuing operations** | | **90,735** | **76,334** |
| **Discontinued operation:** | | | |
| Income from discontinued operation | 6 | 2,077 | 522 |
| Income tax expense | 6,21 | (248) | (176) |
| **Profit from discontinued operation** | 6 | **1,829** | **346** |
| **Net income for the year** | | **92,564** | **76,680** |
| **Net income for the year attributable to:** | | | |
| Equity holders of the Bank | | 92,499 | 76,457 |
| Minority interest | 22 | 65 | 223 |
| **Earning per share (full YTL)** | | **0.002638** | **0.003408** |
| **Earning per share (full YTL) – continuing operations** | | **0.002586** | **0.003393** |

*The notes on pages 6 to 56 are an integral part of these consolidated financial statements.*

**Anadolubank Anonim Şirketi and Its Subsidiaries**
**Consolidated Statement of Changes in Shareholders' Equity**
**As at and for the year ended 31 December 2008**
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | Share capital | Currency translation adjustments | Fair value reserve of available-for-sale financial assets | Legal reserves and accumulated profits | Equity before minority interest | Minority Interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2007** | | **227,619** | **(1,290)** | **(6,928)** | **85,645** | **306,145** | **1,099** | **306,145** |
| Net losses on available-for-sale assets transferred to the income statement | 22 | -- | -- | 37 | -- | 37 | -- | **37** |
| Currency translation adjustments | | -- | (1,605) | -- | -- | (1,610) | (5) | **(1,610)** |
| Net income for the year | | -- | -- | -- | 76,457 | 76,680 | 223 | **76,680** |
| **At 31 December 2007** | | **227,619** | **(2,895)** | **(6,891)** | **162,102** | **381,252** | **1,317** | **381,252** |
| | | | | | | | | |
| **Balances at 1 January 2008** | | **227,619** | **(2,895)** | **(6,891)** | **162,102** | **381,252** | **1,317** | **381,252** |
| Share capital increase | | 184,500 | -- | -- | (130,500) | 54,000 | -- | **54,000** |
| *Cash injections* | 22 | *54,000* | -- | -- | -- | *54,000* | -- | ***54,000*** |
| *Internal sources* | 22 | *130,500* | -- | -- | *(130,500)* | -- | -- | **--** |
| Net losses on available-for-sale assets transferred to the income statement | 22 | -- | -- | 945 | -- | 945 | -- | **945** |
| Currency translation adjustments | | -- | 12,865 | -- | -- | 12,873 | 8 | **12,873** |
| Effect of discontinued operation | | -- | -- | -- | -- | (7) | (7) | **(7)** |
| Net income for the year | | -- | -- | -- | 92,499 | 92,564 | 65 | **92,564** |
| **At 31 December 2008** | | **412,119** | **9,970** | **(5,946)** | **124,101** | **541,627** | **1,383** | **541,627** |

*The notes on pages 6 to 56 are an integral part of these consolidated financial statements.*

**Anadolubank Anonim Şirketi and Its Subsidiaries**
**Consolidated Statement of Cash Flows**
**As at and For the Year Ended 31 December 2008**
*(Currency – Thousands of New Turkish Lira (YTL))*

| | Notes | 31 December 2008 | 31 December 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income before minority interest | | 92,564 | 76,680 |
| Deferred taxation | | 8,459 | (7,347) |
| Provision for loan losses | | 18,357 | 10,620 |
| Depreciation and amortization | 14,15 | 7,017 | 5,876 |
| Provision for retirement pay liability | | 475 | 879 |
| Other various expense accruals | | 2,309 | 1,971 |
| Currency translation adjustments | | 12,865 | (1,605) |
| **Operating profit before changes in operating assets and liabilities** | | **142,046** | **87,074** |
| **Changes in operating assets and liabilities** | | | |
| Deposits with banks | | 35,477 | (28,025) |
| Reserve deposits | | 37,828 | 84,221 |
| Financial assets at fair value through profit or loss | | (30,359) | 20,741 |
| Loans and receivables | | (455,618) | (428,320) |
| Derivatives | | (53,594) | 22,411 |
| Other assets | | 21,420 | (74,993) |
| Deposits | | 539,138 | 173,198 |
| Other liabilities and provisions | | (37,738) | 101,359 |
| Income taxes payable | | (7,487) | 3,510 |
| **Cash provided by/(used in) operating activities** | | **191,113** | **(38,824)** |
| **Cash flows from investing activities** | | | |
| Net investment in property and equipment, and intangible assets | | (3,247) | (9,738) |
| Net (increase)/decrease in security investments | | (349,395) | 254,771 |
| **Cash (used in)/ provided by investing activities** | | **(352,642)** | **245,033** |
| **Cash flows from financing activities** | | | |
| Net increase/(decrease) in funds borrowed | | 71,011 | (98,490) |
| Increase in share capital | | 54,000 | -- |
| **Cash provided/(used in) by financing activities** | | **125,011** | **(98,490)** |
| Net (decrease)/increase in cash and cash equivalents | | **(36,518)** | **107,719** |
| Cash and cash equivalents at the beginning of the year | 8 | **568,151** | **460,432** |
| **Cash and cash equivalents at the end of the year** | 8 | **531,633** | **568,151** |
| Interest paid | | 235,007 | 187,923 |
| Interest received | | 533,225 | 431,360 |
| Income taxes paid | | 17,584 | 27,184 |

*The notes on pages 6 to 56 are an integral part of these consolidated financial statements.*

## Notes to the consolidated financial statements


| Note description | Page |
|---|---|
| • Overview of the Bank | 6 |
| • Basis of preparation | 6 |
| • Basis of consolidation | 8 |
| • Significant accounting policies | 9 |
| • Segment reporting | 24 |
| • Discontinued operation | 27 |
| • Acquisition of subsisidary | 27 |
| • Cash and balances with the Central Bank | 28 |
| • Financial assets at fair value through profit or loss | 28 |
| • Derivative financial instruments | 29 |
| • Investment securities | 30 |
| • Loans and receivables | 31 |
| • Minimum lease receivables | 32 |
| • Property and equipment | 32 |
| • Intangible assets | 33 |
| • Reserve deposits at the Central Bank | 34 |
| • Other assets | 34 |
| • Deposit | 35 |
| • Funds borrowed | 36 |
| • Other liabilities and provisions | 36 |
| • Income taxes | 37 |
| • Shareholders' equity | 38 |
| • Related parties | 40 |
| • Salaries and employee benefits | 41 |
| • Other expenses | 41 |
| • Commitment and contingencies | 42 |
| • Financial risk management | 44 |
| • Other events | 56 |
| • Subsequent events | 56 |

# Anadolubank Anonim Şirketi and Its Subsidiaries

## Notes to the Consolidated Financial Statements
## As at and For the Year Ended 31 December 2008

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

## 1. Overview of the Bank

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

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

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

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

The Bank has acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret AŞ (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

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

## 2. Basis of preparation

### (a) Statement of compliance

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

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

The accompanying consolidated financial statements are authorized for issue by the directors on 23 February 2009.

## 2 Basis of preparation *(continued)*

### (b) Basis of measurement

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

### (c) Functional currency and presentation currency

These consolidated financial statements are presented in YTL, which is the Bank's functional currency. Except as indicated, financial information presented in YTL has been rounded to the nearest thousand.

### (d) Accounting in hyperinflationary countries

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

### (e) Use of estimates and judgments

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

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

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

- Note 10 – Derivative financial assets and liabilities held for trading purpose
- Note 12 – Loans and receivables
- Note 20 – Other liabilities and provisions
- Note 21 – Income taxes
- Note 27 – Financial risk management

## 3. Basis of consolidation

### (a) Methodology

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries on the basis set out in section below.

The major principles of consolidation are as follows:

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

### (b) Subsidiaries

The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the accompanying consolidated financial statements.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

| | | | Effective Shareholding and Voting Rights (%) | |
|---|---|---|---|---|
| | Place of Incorporation | Principal Activities | 31 December 2008 | 31 December 2007 |
| Anadolu Yatırım | Istanbul / Turkey | Brokerage | 82.00 | 82.00 |
| Anadolubank Nederland | Amsterdam / the Netherlands | Banking | 100.00 | 100.00 |
| Anadolu Faktoring | Istanbul / Turkey | Factoring | 99.99 | -- |
| Anadolubank Offshore | TRNC | Banking | 99.40 | 99.40 |
| Anadolu Finansal Kiralama AŞ | Istanbul / Turkey | Leasing | -- | 99.92 |

### (c) Acquisition from entities under common control

The assets and liabilities acquired in business combination arising from transfer of interest in Anadolu Faktoring that is under common control of the shareholder that controls the Bank are recognized at the carrying amounts.

# 4. Significant accounting policies

## (a) Foreign currency

### Foreign currency transactions

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

### Consolidated financial statements of foreign operations

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

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

## (b) Interest income and expense

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

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

Interest income and expense presented in the consolidated income statement include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis
- interest earned till the disposal of financial assets at fair value through profit or loss

## (c) Fees and commission

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

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

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

## 4 Significant accounting policies *(continued)*

### (d) Net trading losses

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

### (e) Lease payments made

Payments made under operating leases are recognized in the consolidated income statement on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### (f) Income taxes

**Corporate tax**

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

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. The withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

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

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

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

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

# 4 Significant accounting policies *(continued)*

## Income taxes *(continued)*

In Nederland, corporate income tax is levied at the rate of 25.5% (31 December 2007: 25.5%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

**Deferred taxes**

Deferred tax assets and liabilities are recognized, using the balance sheet method, on all taxable temporary differences arising between the carrying values of assets and liabilities in the consolidated financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

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

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

**Transfer Pricing Regulations**

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible.

## 4 Significant accounting policies *(continued)*

### (g) Financial instruments

**Classification**

*Financial assets at fair value through profit or loss* are trading financial assets acquired principally for the purpose of selling within a short period for the purpose of short-term profit making. These include investments and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value) are reported as "Derivative financial assets held for trading purpose" and all trading derivatives in a net payable position (negative fair value) are reported as "Derivative financial liabilities held for trading purpose" on the face of the consolidated balance sheet.

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

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

**Recognition**

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

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

**Measurement**

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

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

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

**Fair value measurement principles**

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

# 4 Significant accounting policies *(continued)*

## Financial instruments *(continued)*

### Gains and losses on subsequent measurement

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

### Derecognition

A financial asset is derecognised when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Held-to-maturity assets and loans and receivables are derecognized on the date they are transferred by the Group.

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

### Specific instruments

*Cash and balances with Central Banks:* Cash and balances with Central Banks comprise cash balances on hand, cash deposited with Central Banks and other cash items.

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

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

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

### Identification and measurement of impairments

At each balance sheet date the Group assesses whether there is objective evidence that financial asset or group of financial assets is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of loans and receivables, the estimated future cash flows are discounted to their present value. Increases in the allowance account are recognized in the statement of income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through profit or loss.

## 4 Significant accounting policies *(continued)*

### Financial instruments *(continued)*

#### Identification and measurement of impairments *(continued)*

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

All impairment losses are recognized in the statement of income

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost that are debt securities, the reversal is recognized in the consolidated income statement.

### (h) Property and equipment

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

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

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

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

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

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

## 4 Significant accounting policies *(continued)*

### (i) Intangible assets

Intangible assets mainly comprise computer software.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. Cost associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 – *Impairment of Assets* and if the recoverable amount is less then the carrying value of the related asset, a provision for impairment loss is made.

### (j) Repurchase transactions

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

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

### (k) Items held in trust

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

### (l) Reserve for employee severance indemnity

In accordance with existing social legislation, the Group is required to make lump-sum termination indemnity payments to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2008 is YTL 2,173 (full YTL); at 31 December 2007 it was YTL 2,030 (full YTL).

In the accompanying consolidated financial statements, the Group has reflected a liability calculated using actuarial method and discounted by using the current market yield at the balance sheet date on government bonds, in accordance with IAS 19 – *Employee Benefits*. Actuarial gains and losses are recognized in the consolidated income statement in the year they occur.

The principal actuarial assumptions used at 31 December 2008 and 31 December 2007 are as follows;

| | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Discount rate | 6.26% | 5.71% |
| Expected rate of salary/limit increase | 5.40% | 5.00% |
| Turnover rate to estimate the probability of retirement | 21.08% | 19.57% |

## 4 Significant accounting policies *(continued)*

### (m) Offsetting

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

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

### (n) Provisions

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

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

### (o) Financial guarantee contracts

Financial guarantees are contracts that require the Bank and its subsidiaries to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

### (p) Earnings per share

Earnings per share disclosed in the accompanying consolidated income statement are determined by dividing the net income by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

### (q) Subsequent events

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

### (r) Segment reporting

A segment is a distinguishable component of the Bank and its subsidiaries that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## 4 Significant accounting policies *(continued)*

### (s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at and 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 recognised 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 recognise 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.

  Recognising the difficulty that entities would face in recognising 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, and is not expected to have any impact on the consolidated financial statements of the Group.

## 4 Significant accounting policies *(continued)*

### New standards and interpretations not yet adopted *(continued)*

- Revised IAS 1 – *Presentation of Financial Statements*, issued on 6 September 2007 by 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.

  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.

## 4 Significant accounting policies *(continued)*

### New standards and interpretations not yet adopted *(continued)*

- 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.

  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 recognising 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, and 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, and is not expected to have any impact on the consolidated financial statements of the Group.

## 4 Significant accounting policies *(continued)*

### New standards and interpretations not yet adopted *(continued)*

- The 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 are effective on 1 July 2009, although entities are permitted to adopt them earlier, and is not expected to have any impact on the consolidated financial statements of the Group.

- 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 reorganisation.

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

## 4 Significant accounting policies *(continued)*

### New standards and interpretations not yet adopted *(continued)*

- 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, and 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, and 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, and is not expected to have any impact on the consolidated financial statements of the Group.
- 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, and 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 recognised 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, and 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, and is not expected to have any impact on the disclosures of the Group.

# 4 Significant accounting policies *(continued)*

## New standards and interpretations not yet adopted *(continued)*

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

  - expenditure in respect of advertising and promotional activities should be recognised 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 recognised when the entity has the right to access those goods;

  - a prepayment should be recognised 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, and 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, and is not expected to have any impact on the consolidated financial statements of the Group.

- 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 recognised 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, and is not expected to have any impact on the consolidated financial statements of the Group.

## 4 Significant accounting policies *(continued)*

### New standards and interpretations not yet adopted *(continued)*

- The amendments to IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance* bring that the benefit of a below market 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, and 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, and 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, and is not expected to have any impact on the consolidated financial statements of the Group.
- The amendments to IAS 41 – *Agriculture* requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment is effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier, and is not expected to have any impact on the consolidated financial statements of the Group.

# 5. Segment reporting

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

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

## Geographical segments

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

# 5 Segment reporting *(continued)*

## Business segments

| 31 December 2008 | Retail Banking | Corporate and Commercial Banking | Treasury | Investment Banking | Others | Consolidated | Less: Discontinued Operation | Continuing Operations |
|---|---|---|---|---|---|---|---|---|
| Net interests, fees, and commissions income | 40,299 | 198,555 | 30,800 | 11,897 | -- | 281,551 | 2,810 | 278,741 |
| Other operating income and expenses, net | (23,796) | (116,606) | (18,027) | (7,715) | -- | (166,144) | (733) | (165,411) |
| **Profit before taxes** | **16,503** | **81,949** | **12,773** | **4,182** | -- | **115,407** | **2,077** | **113,330** |

| 31 December 2008 | Retail Banking | Corporate and Commercial Banking | Treasury | Investment Banking | Other | Consolidated | Less: Discontinued Operation | Continuing Operations |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 542,654 | 1,941,364 | 1,286,803 | 38,361 | 20,449 | 3,829,631 | -- | 3,829,631 |
| Investments in associates and subsidiaries | -- | -- | -- | -- | -- | -- | -- | -- |
| **Total assets** | **542,654** | **1,941,364** | **1,286,803** | **38,361** | **20,449** | **3,829,631** | -- | **3,829,631** |
| Segment liabilities | 494,857 | 1,934,896 | 722,874 | 25,303 | 110,074 | 3,288,004 | -- | 3,288,004 |
| Shareholders' equity and minority interest | -- | -- | -- | -- | -- | 541,627 | -- | 541,627 |
| **Total Liabilities and Shareholders' Equity** | **494,857** | **1,934,896** | **722,874** | **25,303** | **110,074** | **3,829,631** | -- | **3,829,631** |
| ***Other Segment Assets:*** | | | | | | | | |
| Capital expenditure | 378 | 2,422 | 370 | 88 | -- | **3,258** | -- | **3,258** |
| Depreciation and amortization expenses | (917) | (5,192) | (741) | (167) | -- | **(7,017)** | (44) | **(6,973)** |
| Other non-cash income/expense | 19,454 | 93,192 | 17,607 | 3,089 | -- | **133,342** | (1,874) | **135,216** |

## 5 Segment reporting *(continued)*

### Business segments *(continued)*

| 31 December 2007 | Retail Banking | Corporate and Commercial Banking | Treasury | Investment Banking | Others | Consolidated | Less: Discontinued Operation | Continuing Operations |
|---|---|---|---|---|---|---|---|---|
| Net interests, fees, and commissions income | 24,339 | 119,304 | 83,955 | 2,884 | -- | 230,482 | (1,086) | 231,568 |
| Other operating income and expenses, net | (14,060) | (72,554) | (47,964) | 235 | -- | (134,343) | 1,608 | (135,951) |
| **Profit before taxes** | **10,279** | **46,750** | **35,991** | **3,119** | **--** | **96,139** | **522** | **95,617** |

| 31 December 2007 | Retail Banking | Corporate and Commercial Banking | Treasury | Investment Banking | Other | Consolidated | Less: Discontinued Operation | Continuing Operations |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 281,384 | 1,545,947 | 1,258,766 | 26,227 | 28,595 | 3,140,919 | -- | 3,140,919 |
| Investments in associates and subsidiaries | -- | -- | -- | -- | -- | -- | -- | -- |
| **Total assets** | **281,384** | **1,545,947** | **1,258,766** | **26,227** | **28,595** | **3,140,919** | **--** | **3,140,919** |
| Segment liabilities | 473,988 | 1,555,532 | 594,728 | 25,301 | 110,118 | 2,759,667 | -- | 2,759,667 |
| Shareholders' equity and minority interest | -- | -- | -- | -- | -- | 381,252 | -- | 381,252 |
| **Total Liabilities and Shareholders' Equity** | **473,988** | **1,555,532** | **594,728** | **25,301** | **110,118** | **3,140,919** | **--** | **3,140,919** |
| ***Other Segment Assets:*** | | | | | | | | |
| Capital expenditure | 988 | 5,101 | 3,374 | 308 | -- | **9,771** | -- | **9,771** |
| Depreciation and amortization expenses | (623) | (2,951) | (2,126) | (194) | -- | **(5,894)** | (58) | **(5,836)** |
| Other non-cash income/expense | 425 | 7,665 | (44,601) | 175 | -- | **(36,336)** | 1,996 | **(38,332)** |

## 6. Discontinued operation

As per the 2008/75 numbered resolution of the Board of Directors of the Bank on 18 August 2008, the 99.92% of outstanding shares of Anadolu Finansal Kiralama AŞ ("Anadolu Leasing"), which was the consolidating subsidiary of the Group, was sold at a prices of equal to its net asset value in cash to Habaş Petrol Ürünleri Sanayi ve Ticaret AŞ (related party) on 27 October 2008. The Group's leasing operations is ended by the selling of Anadolu Leasing which was formerly included in the consolidation. Therefore, the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations.

| **Results of discontinued operation** | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Interest income | 6,649 | 1,601 |
| Interest expense | (3,839) | (2,656) |
| **Net interest income** | **2,810** | **(1,055)** |
| Net fees and commissions income | - | (91) |
| Other operating income | 302 | 2,617 |
| Other operating expense | (1,035) | (949) |
| **Income from operations** | **2,077** | **522** |
| Income tax expense | (248) | (176) |
| **Income from operating activities, net of income taxes** | **1,829** | **346** |
| Gain on sale of discontinued operations | - | - |
| **Net income from discontinued operations** | **1,829** | **346** |
| | | |
| **Earning per share (full YTL)** | **0.000052** | **0.000015** |

| **Cash flows from/(used in) discontinued operation** | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Cash flows from/(used in) operating activities | 2,621 | (4,035) |
| Cash flows from investment activities | 4,931 | 198 |
| Cash flows used in financing activities | (4,056) | (3,135) |
| **Net cash flow from/(used in) discontinued operations** | **3,496** | **(6,972)** |

| **Effect of disposal on the financial position of the Group** | **30 September 2008** |
|---|---|
| Deposits with banks and other financial institutions | (3,661) |
| Derivative financial instruments held for trading purpose | (289) |
| Loans and receivables | (78,393) |
| Property and equipment | (48) |
| Other assets | (5,327) |
| Fund borrowed | 81,071 |
| Other liabilities and provisions | 1,768 |
| **Net assets and liabilities** | **(4,879)** |

## 7. Acquisition of subsidiary

### Business combination

On 27 October 2008, the Bank acquired 99.99% of Anadolu Faktoring that is under common control of the shareholder that controls the Bank for YTL 13,116 which was equal to the net asset of Anadolu Faktoring and net asset was measured at carrying values. Anadolu Faktoring is engaged to operate in factoring sector. In the three months to 31 December 2008, the subsidiary contributed profit of YTL 2,193 after taxes.

## 8. Cash and cash equivalents

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash on hand | 24,504 | 23,219 |
| Balances with the Central Bank | 244,705 | 314,565 |
| **Cash and balances with the Central Bank** | **269,209** | **337,784** |
| Deposits with banks and other financial institutions | 108,854 | 170,872 |
| Interbank money market placements | 91,198 | 110,047 |
| Receivables from reverse repurchase agreement | 77,474 | -- |
| **Total cash and cash equivalents in the balance sheet** | **546,735** | **618,703** |
| Blocked deposits with banks and other financial institutions | (12,697) | (48,448) |
| Interest accruals on cash and cash equivalents | (2,405) | (2,104) |
| **Cash and cash equivalents in the statement of cash flows** | **531,633** | **568,151** |

As at 31 December 2008, deposits with banks amounted to YTL 12,697 (31 December 2007: YTL 48,448) are collateralized at financial institutions against interest rate swaps and credit default swaps.

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

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective Interest Rate (%) | | Amount | | Effective Interest Rate (%) | |
| | YTL | FC | YTL | FC | YTL | FC | YTL | FC |
| Balances with the Central Bank | 8,702 | 236,003 | 12.00 | -- | 73,814 | 240,751 | 11.81-12.93 | 1.70-1.85 |
| Deposits with banks and other financial institutions | 771 | 108,083 | 13.50-15.45 | 0.30-5.02 | 47 | 170,825 | 17.50-17.90 | 2.82-5.10 |
| Interbank money market placements | 17,007 | 74,191 | 15.00 | 0.38-3.75 | 110,047 | -- | 15.75 | -- |
| Receivables from reverse repurchase agreement | -- | 77,474 | -- | 1.60 | -- | -- | -- | -- |
| **Total** | **26,480** | **495,751** | | | **183,908** | **411,576** | | |

## 9. Financial assets at fair value through profit or loss

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| ***Debt instruments:*** | Carrying value | Effective Interest Rate (%) | Carrying value | Effective Interest Rate (%) |
| Eurobonds issued by the Turkish Government | 22,236 | 6.88-12.38 | 271 | 5.50-12.38 |
| Government bonds in YTL | 12,639 | 14.00-21.16 | 4,102 | 15.94-19.90 |
| Treasury bills in YTL | 156 | 17.76-19.66 | 299 | 16.21-21.06 |
| **Total financial assets at fair value through profit or loss** | **35,031** | | **4,672** | |

As at 31 December 2008 and 2007, there is no debt instrument given as collateral under repurchase agreements.

As at 31 December 2008, the carrying and the nominal values of government securities kept in the Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and in Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations are YTL 2,218 and YTL 2,000 (31 December 2007: YTL 2,237 and YTL 2,017), respectively.

## 10. Derivative financial instruments

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

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

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

| | 31 December 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value assets | Fair value liabilities | Notional amount in New Turkish Lira equivalent | Up to 1 months | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
| ***Derivatives financial instruments held for trading purpose:*** | | | | | | | | | |
| Forward purchase contract | 19,198 | -- | 440,512 | 438,773 | 765 | 974 | -- | -- | -- |
| Forward sale contract | -- | 1,267 | 438,938 | 437,160 | 811 | 967 | -- | -- | -- |
| Currency swap purchase | 1,639 | -- | 591,179 | 441,009 | 9,074 | 132,476 | -- | 8,620 | -- |
| Currency swap sale | -- | 2,433 | 569,761 | 436,877 | 8,014 | 114,868 | -- | 10,002 | -- |
| Credit default swap sale | -- | 600 | 28,734 | -- | -- | 22,685 | -- | 6,049 | -- |
| Interest rate swap purchase | -- | 52 | 14,821 | -- | -- | -- | -- | 14,821 | -- |
| Interest rate swap sale | 45 | -- | 14,821 | -- | -- | -- | -- | 14,821 | -- |
| Put option purchase | -- | 243 | 70,444 | 5,037 | -- | 65,407 | -- | -- | -- |
| Put option sale | -- | 202 | 58,557 | 5,037 | -- | 53,520 | -- | -- | -- |
| **Total** | **20,882** | **4,797** | **2,227,767** | **1,763,893** | **18,664** | **390,897** | **--** | **54,313** | **--** |

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

## 11. Investment securities

As at 31 December 2008 and 2007, investment securities classified as held-to maturity comprised of the following:

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Amount | Effective Interest rate (%) | Amount | Effective Interest rate (%) |
| ***Debt instruments:*** | | | | |
| Turkish government bonds | 382,186 | 14.00 | 213,270 | 14.31 |
| Eurobonds issued by Turkish government | 359,133 | 7.25-11.88 | 143,691 | 10.50-11.88 |
| Foreign currency government bonds | -- | -- | 36,897 | 7.08 |
| Foreign currency denominated corporate bonds | 5,733 | 7.82 | 2,776 | 7.82 |
| **Total held to maturity securities** | **747,052** | | **396,634** | |

Carrying value of held-to-maturity debt securities given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follow:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Deposited at financial institutions for repurchase transactions | 331,536 | 142,082 |
| Other collaterals | 178,878 | 140,941 |

As at 31 December 2008, the carrying and the nominal values of the securities issued by the Turkish Government kept in the Central Bank of Turkey, Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi (Derivatives Exchange) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 178,878 and YTL 170,391, (31 December 2007: YTL 62,445 and YTL 58,560), respectively.

The Group had also given the eurobonds having carrying value of YTL 36,583 and the domestically issued government bonds having carrying value of YTL 41,913 with a nominal value of US Dollar 30,572 thousand and YTL 39,305 respectively as collateral to Morgan Stanley Bank International Limited for the funds obtained amounted to YTL 60,000 as of December 31,2007.

## 12. Loans and receivables

| | 31 December 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amount | | | | Effective Interest Rate (%) | | |
| | YTL | FC | FC Indexed | Total | YTL | FC | FC Indexed |
| Corporate loans | 991,563 | 577,786 | 221,552 | 1,790,901 | 18.50-31.97 | 3.25-10.00 | 4.50-10.25 |
| Consumer loans | 235,237 | -- | 215,696 | 450,933 | 14.54-19.94 | -- | 3.00-9.50 |
| Credit cards | 37,095 | 47 | -- | 37,142 | 50.28-52.68 | -- | -- |
| Factoring receivables | 59,713 | -- | -- | 59,713 | 15.95-52.00 | -- | -- |
| **Total performing loans** | **1,323,608** | **577,833** | **437,248** | **2,338,689** | | | |
| Non-performing loans | | | | 45,155 | | | |
| Less: Reserve for possible loan losses | | | | (42,370) | | | |
| **Loans and receivables, net** | | | | **2,341,474** | | | |

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

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

Movements in the reserve for possible loan losses:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Reserve at beginning of the year | 29,065 | 18,619 |
| Acquisitions through new consolidating subsidiary | 595 | -- |
| Provision for possible loan losses | 20,796 | 13,489 |
| Recoveries | (2,254) | (2,869) |
| **Provision, net of recoveries** | **18,542** | **10,620** |
| Loans written off during the year | (5,832) | (174) |
| **Reserve at end of the year** | **42,370** | **29,065** |

## 13. Minimum lease receivables

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

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Finance lease receivables, net of unearned incomes | -- | 63,805 |
| Add: non-performing lease receivables | -- | 96 |
| Less: allowance for possible losses on lease receivables | -- | (96) |
| **Finance lease receivables, net** | -- | **63,805** |

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Due within one year | -- | 36,543 |
| Due between 1 and 5 years | -- | 36,514 |
| **Financial lease receivables, gross** | -- | **73,057** |
| Unearned income | -- | (9,252) |
| **Finance lease receivables, net** | -- | **63,805** |
| | | |
| Due within one year | -- | 30,562 |
| Due between 1 and 5 years | -- | 33,243 |
| **Finance lease receivables, net** | -- | **63,805** |

As further explained in *Note 6*, the Group disposed of its consolidating subsidiary operating in finance leasing sector. Hence, there is not minimum lease receivable of the Group as at 31 December 2008.

## 14. Property and equipment

Movements of tangible assets as at and for the year ended 31 December 2008 and 2007 are as follows:

| | 31 December 2007 | Additions | Disposals | Acquisitions through new consolidating subsidiary | 31 December 2008 |
|---|---|---|---|---|---|
| ***Cost:*** | | | | | |
| Buildings | 4,742 | -- | -- | -- | 4,742 |
| Motor vehicles | 5,970 | 308 | 397 | 140 | 6,021 |
| Furniture, office equipment and leasehold improvements | 55,349 | 2,300 | 552 | 50 | 57,147 |
| | **66,061** | **2,608** | **949** | **190** | **67,910** |
| ***Accumulated Depreciation:*** | | | | | |
| Buildings | 871 | 193 | -- | -- | 1,064 |
| Motor vehicles | 2,922 | 1,052 | 397 | 22 | 3,599 |
| Furniture, office equipment and leasehold improvements | 40,732 | 4,874 | 547 | 14 | 45,073 |
| | **44,525** | **6,119** | **944** | **36** | **49,736** |
| **Net Book Value** | **21,536** | | | | **18,174** |

## 14. Property and equipment *(continued)*

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

As at 31 December 2008, the cost of fully depreciated property and equipment are still in active use amounting to YTL 38,503 (31 December 2007: YTL 36,807).

As at 31 December 2008, tangible assets were insured to the extent of YTL 39,091 (31 December 2007: YTL 47,972) in total.

## 15. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2008 and 2007 are as follows:

| | 31 December 2007 | Additions | Disposals | Acquisitions through new consolidating subsidiary | 31 December 2008 |
|---|---|---|---|---|---|
| ***Cost:*** | | | | | |
| Software | 10,375 | 500 | 117 | 53 | 10,811 |
| Other intangibles | 1,381 | -- | 25 | -- | 1,356 |
| | **11,756** | **500** | **142** | **53** | **12,167** |
| ***Accumulated Amortization :*** | | | | | |
| Software | 8,280 | 893 | 117 | 13 | 9,069 |
| Other intangibles | 1,370 | 5 | 19 | -- | 1,356 |
| | **9,650** | **898** | **136** | **13** | **10,425** |
| **Net Book Value** | **2,106** | | | | **1,742** |

## 15. Intangible assets *(continued)*

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

## 16. Reserve deposits at the Central Bank

As at 31 December 2008, reserve deposits at the Central Bank was amounted to YTL 72,827 (31 December 2007: 94,247).

As at 31 December 2008, according to the no. 2005/1 announcement of the Central Bank of Turkey, "Announcement on Reserve Deposits", all banks operating in Turkey should provide a reserve amounting to 6% (31 December 2007:6%) of the liabilities in Turkish Lira and 9% (31 December 2007:11%) of the liabilities in foreign currencies.

In accordance with the press announcement of CBT regarding reserve requirements, dated 5 December 2008 and numbered 2008-63, the foreign currency reserve requirement ratio of the banks which was 11% has been decreased by 2 points to 9%, aiming to diminish the negative effects of the global credit crisis and sustain foreign currency liquidity to the banks.

As at 31 December 2008, interest rate given by CBT is 12% for YTL reserve deposits and interest rate is nil for foreign currency reserve deposits as at 31 December 2008 (31 December 2007: YTL 11.81%, FC 1.95%, 1.80%).

## 17. Other assets

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Transfer cheques | 41,450 | 65,857 |
| Prepaid expenses | 1,095 | 938 |
| Assets held for resale | 533 | 395 |
| Prepaid taxes | 274 | 73 |
| Advances given | 87 | 4,094 |
| Others | 2,255 | 12,165 |
| **Total** | **45,694** | **83,522** |

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

# 18. Deposits

## Deposits from banks

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective Interest Rate (%) | | Amount | | Effective Interest Rate (%) | |
| | YTL | FC | YTL | FC | YTL | FC | YTL | FC |
| Demand | 6 | 197 | -- | -- | 22 | 479 | -- | -- |
| Time | 14 | 33,397 | 17.50 | 0.11-7.15 | 241 | 999 | 16.50 | 3.00-5.00 |
| **Total** | **20** | **33,594** | | | **263** | **1,478** | | |

## Deposits from customers

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective Interest Rate (%) | | Amount | | Effective Interest Rate (%) | |
| | YTL | FC | YTL | FC | YTL | FC | YTL | FC |
| ***Saving:*** | | | | | | | | |
| Demand | 16,155 | 274,590 | -- | -- | 26,016 | 47,442 | -- | -- |
| Time | 1,061,698 | 667,243 | 14.00-24.60 | 1.00-8.50 | 791,897 | 684,888 | 12.75-18.90 | 2.50-6.00 |
| | **1,077,853** | **941,833** | | | **817,913** | **732,330** | | |
| ***Commercial and other deposits:*** | | | | | | | | |
| Demand | 64,930 | 50,560 | -- | -- | 68,725 | 59,972 | -- | -- |
| Time | 113,244 | 168,181 | 13.50-24.25 | 3-7.85 | 101,903 | 128,493 | 14.75-18.50 | 2.50-6.00 |
| | **178,174** | **218,741** | | | **170,628** | **188,465** | | |
| **Total** | **1,256,027** | **1,160,574** | | | **988,541** | **920,795** | | |

## Other money market deposits

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective Interest Rate (%) | | Amount | | Effective Interest Rate (%) | |
| | YTL | FC | YTL | FC | YTL | FC | YTL | FC |
| ***Obligations under repurchase agreements:*** | | | | | | | | |
| -Due to banks | 5,238 | 228,892 | 15.19 | 2.53-3.89 | 8,050 | 125,147 | 17.15-18.80 | 4.47-4.81 |
| **Total** | **5,238** | **228,892** | | | **8,050** | **125,147** | | |

As at 31 December 2008, carrying value of underlying assets (investment securities classified as held-to-maturity) against repurchase agreements was amounted to YTL 331,536 (31 December 2007: 142,082 YTL).

## 19. Funds borrowed

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective Interest Rate (%) | | Amount | | Effective Interest Rate (%) | |
| | YTL | FC | YTL | FC | YTL | FC | YTL | FC |
| Short-term (*) | 32,975 | 343,194 | 14.00-23.50 | 2.68-6.67 | 11,710 | 137,471 | 13.00-22.65 | 1.44-6.43 |
| Medium/long term (*) | -- | 112,575 | -- | 3.13-6.00 | 71,951 | 297,534 | 12.46 | 5.26-6.93 |
| **Total** | **32,975** | **455,769** | | | **83,661** | **435,005** | | |

(*) Borrowings are presented considering their original maturities.

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| 2008 | -- | 359,361 |
| 2009 | 104,893 | 2,465 |
| 2010 | -- | 1,696 |
| 2011 | 7,682 | 5,963 |
| **Total** | **112,575** | **369,485** |

## 20. Other liabilities and provisions

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Transfer orders | 56,864 | 98,270 |
| Taxes other than on income | 10,696 | 9,277 |
| Other various provisions and expense accruals | 8,555 | 4,694 |
| Reserve for employee severance indemnity and liability for unused vacations | 4,917 | 4,609 |
| Cash collaterals and blockages | 351 | 1,027 |
| Others | 23,232 | 25,547 |
| **Total** | **104,615** | **143,424** |

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Total provision at the beginning of the year | 4,609 | 3,731 |
| Increase during the year | 447 | 878 |
| Paid during the year | (139) | -- |
| **Total provision at the end of the year** | **4,917** | **4,609** |

## 21. Income taxes

Major components of income tax expense:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| ***Current income taxes:*** | | |
| Current income tax charge | (14,109) | (26,734) |
| ***Deferred taxes:*** | | |
| Relating to origination and reversal of temporary differences | (8,486) | 7,451 |
| Income tax expense from continuing operations | (22,595) | (19,283) |
| Income tax expense from discontinued operation | (248) | (176) |
| **Income tax expense** | **(22,843)** | **(19,459)** |

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Current income tax charge | 14,109 | 26,840 |
| Prepaid taxes | (12,291) | (21,547) |
| **Income taxes payable** | **1,818** | **5,293** |

As at 31 December 2008 and 2007, deferred tax assets and liabilities are as follows:

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Deferred tax Assets/ (Liabilities) | | Deferred tax Assets/ (Liabilities) | |
| *Deferred taxes:* | | | | |
| Valuation difference of derivative financial instruments | | (3,234) | | 7,466 |
| Reserve for employee severance indemnity and liability for unused vacation | | 874 | | 922 |
| Performance premium accrual | | 804 | | 316 |
| Property and equipment and intangibles | | (111) | | (221) |
| Provision for credit card awards | | 58 | | 107 |
| Provision for legal cases | | 52 | | 52 |
| Differences in securities valuation | | (2,519) | | (3,751) |
| Others | | 411 | | (9) |
| **Total deferred tax assets/(liabilities)** | **2,216** | **(5,881)** | **8,863** | **(3,981)** |
| Offsetting | (2,196) | 2,196 | (3,910) | 3,910 |
| **Deferred tax assets/(liabilities)** | **20** | **(3,685)** | **4,953** | **(71)** |

## 21 Income taxes *(continued)*

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2008 and 2007 were as follows:

| | 31 December 2008 | Tax rate (%) | 31 December 2007 | Tax rate (%) |
|---|---|---|---|---|
| **Net profit from ordinary activities before income tax and minority interest** | **113,330** | | **95,617** | |
| Taxes on income per statutory tax rate | 22,666 | 20.00 | 19,123 | 20.00 |
| Disallowable expenses | 152 | 0.13 | 75 | 0.08 |
| Effect of income not subject to tax | (43) | (0.04) | (72) | (0.08) |
| Others | (180) | (0.16) | 157 | 0.17 |
| **Income tax expense** | **22,595** | **19.93** | **19,283** | **20.17** |

## 22. Shareholders' equity

### Share capital

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Number of common shares**, YTL 0.01 (in full YTL), par value Authorized, issued and outstanding 40,950 millions; | 409,500 | 225,000 |

The authorized nominal share capital of the Bank amounted to YTL 409,500 thousands as at 31 December 2008. As per the resolution of the Board of Directors on 30 March 2008, it was decided to increase the Bank's statutory share capital from YTL 225,000 thousands to YTL 382,500 thousands by cash contribution amounting to YTL 27,000 and transferring from legal reserves and accumulated profits of YTL 130,500. In addition, the statutory share capital was increased by YTL 27,000 by the cash injection of Habaş Sınai ve Tıbbi Gazlar Istihsal Endüstrisi AŞ as at 30 September 2008.

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

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ | 286,559 | 69.98 | 152,714 | 67.87 |
| Mehmet Rüştü Başaran | 111,858 | 27.32 | 65,799 | 29.24 |
| Other shareholders | 11,083 | 2.70 | 6,487 | 2.89 |
| **Nominal value** | **409,500** | **100.00** | **225,000** | **100.00** |
| Restatement effect | 2,619 | | 2,619 | |
| **Total** | **412,119** | | **227,619** | |

## 22 Shareholders' equity *(continued)*

### Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As at 31 December 2008, the Group's legal reserves, which were included within the legal reserves and accumulated profits, amounted to YTL 11,234 (31 December 2007: YTL 7,517).

### Minority interest

As at 31 December 2008 net minority interest amounts to YTL 1,383 (31 December 2007: YTL 1,317). Minority interest is detailed as follows:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Capital and other reserves | 979 | 979 |
| Accumulated profits | 339 | 115 |
| Current year net income | 65 | 223 |
| **Total** | **1,383** | **1,317** |

### Fair value reserve of available-for-sale financial assets

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Balance at the beginning of the year | (6,891) | (6,928) |
| Net gains/(losses) from changes in fair value | -- | -- |
| Related deferred and current income taxes | -- | -- |
| Net losses transferred to the income statement on amortization | 1,134 | 40 |
| Related deferred taxes | (189) | (3) |
| **Balance at the end of the year** | **(5,946)** | **(6,891)** |

During 2006, the Bank has reclassed the securities from available-for-sale financial assets to held-to-maturity investment securities in accordance with the decision of Board of Directors. The loss of YTL 8,195, net off deferred tax at the transfer date that has been recognized directly in equity has been accounted to be amortized to the income statement over the remaining life of the transferred securities using the effective interest method. As at 31 December 2008, such losses recognized under equity amounted to YTL 5,946 (31 December 2007: YTL 6,891).

## 23. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 69.98% (31 December 2007: 67.87%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

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

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

**Outstanding balances**

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash loans | 42,982 | 31,634 |
| Non-cash loans | 4,478 | 20,510 |
| Deposits taken | 56,789 | 93,964 |
| Notional amount of derivative transactions | 751 | 26,013 |

**Transactions**

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Interest income | 6,619 | 2,303 |
| Interest expense | 3,814 | 537 |
| Other operating income | 630 | 766 |
| Other operating expense | 1,101 | 1,433 |
| Profit/(Loss) from derivatives | 655 | (137) |

**Directors' Remuneration**

As at and for the year ended 31 December 2008, the key management (nine executives including the general manager) and the members of the Board of Directors received remuneration and fees amounted to YTL 6,513 (31 December 2007: YTL 4,466).

## 24. Salaries and employee benefits

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| ***Staff costs:*** | | |
| Wages and salaries | 73,212 | 57,326 |
| Cost of defined contribution plan (employer's share of social security premiums) | 11,356 | 9,703 |
| Other fringe benefits | 9,998 | 9,054 |
| Provision for employee termination benefits and liability for unused vacations | 447 | 878 |
| **Total** | **95,013** | **76,961** |

The average number of employees during the year is:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| The Bank | 1,726 | 1,724 |
| Subsidiaries | 79 | 47 |
| **Total** | **1,805** | **1,771** |

## 25. Other expenses

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Operating lease charges | 10,962 | 9,180 |
| Communication expenses | 4,526 | 4,592 |
| Saving Deposit Insurance Fund premium | 2,920 | 2,631 |
| Transportation expenses | 2,914 | 2,272 |
| Other provisions | 1,686 | 1,722 |
| Maintenance expenses | 1,156 | 1,115 |
| Hosting cost | 1,315 | 1,249 |
| Energy costs | 1,676 | 1,158 |
| POS service expenses | 798 | 908 |
| Office supplies | 1,179 | 1,065 |
| Chartered accountants | 952 | 667 |
| Cleaning service expense | 1,623 | 1,255 |
| Advertising expenses | 844 | 1,390 |
| Expertise expenses | 648 | 313 |
| Disallowable expenses | 533 | 666 |
| Raw credit card expenses | 423 | 118 |
| BRSA participation fee | 415 | 413 |
| Credit card service expense | 240 | 248 |
| Various administrative expenses | 4,580 | 3,914 |
| **Total** | **39,390** | **34,876** |

## 26. Commitment and contingencies

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

| | 31December 2008 | 31 December 2007 |
|---|---|---|
| Letters of guarantee | 710,024 | 699,026 |
| Letters of credit | 103,464 | 225,817 |
| Acceptance credits | 20,801 | 13,871 |
| Other guarantees | 189,657 | 117,451 |
| **Total non-cash loans** | **1,023,946** | **1,056,165** |
| Credit card limit commitments | 129,627 | 197,295 |
| Other commitments | 229,236 | 257,546 |
| **Total** | **1,382,809** | **1,511,006** |

### Litigations

**(a) The Bank**

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

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

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

## 26. Commitment and contingencies *(continued)*

Following this, it was decided that Anadolu Yatırım, whose operations was aborted temporarily on 7 March 2003 in accordance with the declaration of the Capital Markets Board on date 13 March 2003 with number DEDA-/-10/180-2905 on the meeting of the Commission Ruling Agency on 13 March 2003, could start to operate in capital markets starting from 13 March 2003 since there is not an obstacle in the financial position of Anadolu Yatırım to operate in the capital markets. With reference to the related situation, a preliminary injunction lawsuit at amount of 2,889-YTL was filed against the Bank, Anadolu Yatırım and a person by Investor Protection Fund by proxy of related intermediary institution with the demand of taking back the share certificates and all income returns, which belongs to the clients of the intermediary institution and sold off with lack of will while being under the possession of the related intermediary company and are sold off by lack of will and relevant to prevent to be given to third parties till to the end of the court. The Parent Company Bank is a party on this court and the Bank management recorded the provision at a rate of 100 % for the uncollected amount in 2003 that is given as loan to the related intermediary institution. Provided that the court is closed on behalf of the Bank, the share certificates that are mentioned above and belong to the clients of the related intermediary institution will be taken into the portfolio of the Bank and will be recorded revenue at the amount of the share certificates. Above mentioned case is resulted against Anadolu Yatırım and the file is in Court of Appeals for reviewing appellate.

(iii) In addition to the above mentioned cases, there are 78 other law cases opened against the Bank, claims of which in total amount to YTL 3,793. At 31 December 2008, the Bank management recorded the provision amounting to YTL 1,571 for such cases.

**(b) The subsidiaries**

There are 4 law cases opened against Anadolu Yatırım, claims of which in total amount to YTL 175. As of 31 December 2008, no provision is recorded for such cases.

### Commitments under operating leases

As of 31 December 2008 and 2007, future minimum rentals payable under non cancellable operating leases are as follows:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Within one year | 8,090 | 5,582 |
| After one year but not more than five years | 13,314 | 10,920 |
| **Total** | **21,404** | **16,502** |

# 27. Financial risk management

## (a) Introduction and overview

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

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

*Risk management framework*

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

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

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

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

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

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

## 27. Financial risk management *(continued)*

### (b) Credit risk

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

**Exposure to credit risk**

| | Loans and advances to customers | | Other assets | |
|---|---|---|---|---|
| | 31 December 2008 | 31 December 2007 | 31 December 2008 | 31 December 2007 |
| Individually impaired | 44,057 | 27,890 | 1,098 | 1,175 |
| Allowance for impairment | 41,272 | 27,890 | 1,098 | 1,175 |
| **Carrying amount** | **2,785** | -- | -- | -- |
| Collectively impaired | -- | -- | -- | -- |
| Allowance for impairment | -- | -- | -- | -- |
| **Carrying amount** | -- | -- | -- | -- |
| Past due but not impaired | 57,260 | 59,614 | -- | -- |
| **Carrying amount** | **57,260** | **59,614** | -- | -- |
| Neither past due nor impaired | 2,281,429 | 1,841,977 | -- | -- |
| Loans with renegotiated terms | -- | 2,525 | -- | -- |
| **Carrying amount** | **2,281,429** | **1,844,502** | -- | -- |
| **Total carrying amount** | **2,341,474** | **1,904,116** | | |

**Impaired loans and receivables**

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3 to 5 in the Group's internal credit risk grading system.

**Past due but not impaired loans**

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

**Loans with renegotiated terms**

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

# 27. Financial risk management *(continued)*

## Credit risk *(continued)*

### Write-off policy

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

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

| | Cash loans | | Other assets | |
|---|---|---|---|---|
| **31 December 2008** | **Gross** | **Net** | **Gross** | **Net** |
| Grade 3 : Individually Impaired | 10,896 | 1,515 | 7 | -- |
| Grade 4 : Individually Impaired | 6,097 | 919 | 392 | -- |
| Grade 5 : Individually Impaired | 27,064 | 351 | 699 | -- |
| **Total** | **44,057** | **2,785** | **1,098** | -- |

| | Cash loans | | Other assets | |
|---|---|---|---|---|
| **31 December 2007** | **Gross** | **Net** | **Gross** | **Net** |
| Grade 3 : Individually Impaired | 4,417 | -- | 18 | -- |
| Grade 4 : Individually Impaired | 6,300 | -- | 272 | -- |
| Grade 5 : Individually Impaired | 17,173 | -- | 885 | -- |
| **Total** | **27,890** | -- | **1,175** | -- |

### Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2008 or 2007.

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

| **Cash loans** | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Secured loans: | | |
| Secured by cash collateral | 72,217 | 60,974 |
| Secured by mortgages | 644,753 | 313,687 |
| Secured by government institutions or government securities | 168 | 412 |
| Guarantees issued by financial institutions | 75 | 101 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 1,352,632 | 1,321,349 |
| Unsecured loans | 268,844 | 207,593 |
| **Total performing loans and receivables** | **2,338,689** | **1,904,116** |

## 27. Financial risk management *(continued)*

### Credit risk *(continued)*

| Non-cash loans | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Secured loans: | | |
| Secured by mortgages | 37,470 | 28,087 |
| Guarantees issued by financial institutions | 28,547 | 34,350 |
| Secured by cash collateral | 899 | 657 |
| Secured by government institutions or government securities | 389 | 44 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 815,735 | 777,121 |
| Unsecured loans | 140,906 | 215,906 |
| **Total non-cash loans** | **1,023,946** | **1,056,165** |

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash collateral (*) | -- | -- |
| Unsecured | 32,233 | 17,242 |
| Marketable Securities | 2,889 | 3,884 |
| Promissory notes (*) | -- | -- |
| Mortgages | 7,268 | 4,953 |
| Pledge on automobile | 1,153 | 712 |
| Corporate and personal guarantees | 1,612 | 2,274 |
| **Total** | **45,155** | **29,065** |

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

**Sectoral and geographical concentration of impaired loans**

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Construction | 2,510 | 2,458 |
| Food | 3,852 | 1,420 |
| Textile | 4,460 | 4,851 |
| Service sector | 725 | 213 |
| Durable consumption | 6,167 | 5,284 |
| Metal and metal products | 330 | 280 |
| Consumer loans | 3,025 | 956 |
| Agriculture and stockbreeding | 1,503 | 855 |
| Other | 22,583 | 12,748 |
| **Total non-performing loans and receivables** | **45,155** | **29,065** |

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Turkey | 44,953 | 28,834 |
| United States of America | 202 | 231 |
| **Total non-performing loans and receivables** | **45,155** | **29,065** |

## 27. Financial risk management *(continued)*

### Credit risk *(continued)*

**Sectoral break down of cash and non-cash loans**

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash | Cash (%) | Non-cash | Non-cash (%) | Cash | Cash (%) | Non-cash | Non-cash (%) |
| **Agriculture** | **131,077** | **5.60** | **39,114** | **3.82** | **106,183** | **5.58** | **22,866** | **2.17** |
| Farming and stockbreeding | 112,758 | 4.82 | 37,712 | 3.68 | 84,465 | 4.44 | 21,144 | 2.00 |
| Forestry | 15,193 | 0.65 | 1,379 | 0.13 | 19,499 | 1.02 | 1,699 | 0.16 |
| Fishing | 3,126 | 0.13 | 23 | -- | 2,219 | 0.12 | 23 | 0.00 |
| **Industry** | **960,621** | **41.03** | **518,564** | **50.64** | **1,000,477** | **52.54** | **634,811** | **60.11** |
| Mining and quarrying | 27,153 | 1.16 | 15,623 | 1.53 | 22,895 | 1.20 | 18,814 | 1.78 |
| Manufacturing | 915,534 | 39.10 | 481,453 | 47.02 | 962,978 | 50.57 | 601,732 | 56.97 |
| Electricity, gas, water | 17,934 | 0.77 | 21,488 | 2.10 | 14,604 | 0.77 | 14,265 | 1.35 |
| **Construction** | **155,982** | **6.66** | **174,719** | **17.06** | **75,780** | **3.98** | **138,386** | **13.10** |
| **Services** | **562,940** | **24.04** | **270,945** | **26.46** | **359,860** | **18.90** | **249,624** | **23.63** |
| Wholesales and retail trade | 172,531 | 7.37 | 101,159 | 9.88 | 166,281 | 8.73 | 99,487 | 9.42 |
| Hotel and restaurant services | 5,735 | 0.24 | 2,169 | 0.21 | 7,872 | 0.41 | 3,203 | 0.30 |
| Transportation and communication | 79,705 | 3.40 | 29,617 | 2.89 | 37,477 | 1.97 | 13,693 | 1.30 |
| Financial institution | 202,542 | 8.65 | 83,674 | 8.17 | 88,804 | 4.66 | 92,529 | 8.76 |
| Real estate and rent services | 7,181 | 0.31 | 72 | 0.01 | 240 | 0.01 | 79 | 0.01 |
| Professional services | 66,181 | 2.83 | 40,285 | 3.93 | 46,327 | 2.43 | 36,253 | 3.43 |
| Educational services | 3,635 | 0.16 | 770 | 0.08 | 2,144 | 0.11 | 1,412 | 0.13 |
| Health and social services | 25,430 | 1.09 | 13,199 | 1.29 | 10,715 | 0.56 | 2,968 | 0.28 |
| **Consumer loans** | **450,933** | **19.26** | -- | -- | **272,375** | **14.30** | -- | -- |
| **Credit card** | **37,142** | **1.59** | -- | -- | **30,620** | **1.61** | -- | -- |
| **Others** | **42,779** | **1.83** | **20,604** | **2.01** | **58,821** | **3.09** | **10,478** | **0.99** |
| **Total** | **2,341,474** | **100.00** | **1,023,946** | **100.00** | **1,904,116** | **100.00** | **1,056,165** | **100.00** |

## (c) Liquidity risk

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

*Management of liquidity risk*

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

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

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

## 27. Financial risk management *(continued)*

### Liquidity risk *(continued)*

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

**Exposure to liquidity risk**

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

*Residual contractual maturities of monetary liabilities*

| 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 | 33,614 | 33,866 | 198 | 1,225 | 9,353 | 23,090 | -- | -- |
| Deposits from customers | 2,416,601 | 2,419,997 | 392,466 | 155,868 | 1,728,103 | 113,022 | 23,118 | 7,420 |
| Obligations under repurchase agreements | 234,130 | 235,226 | -- | 5,240 | -- | 229,986 | -- | -- |
| Funds borrowed | 488,744 | 519,218 | -- | 17,946 | 15,614 | 373,083 | 112,575 | -- |
| Other liabilities and provisions | 91,143 | 91,143 | 84,100 | 775 | 2,397 | 634 | 3,237 | -- |
| **Total** | **3,264,232** | **3,299,450** | **476,764** | **181,054** | **1,755,467** | **739,815** | **138,930** | **7,420** |

| 31 December 2007 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 1,741 | 1,748 | 501 | 1,247 | -- | -- | -- | -- |
| Deposits from customers | 1,909,336 | 1,923,497 | 202,155 | 1,216,629 | 468,460 | 36,253 | -- | -- |
| Obligations under repurchase agreements | 133,197 | 133,580 | -- | 76,781 | 56,799 | -- | -- | -- |
| Funds borrowed | 518,666 | 530,292 | -- | 83,758 | 58,201 | 383,924 | 4,409 | -- |
| Other liabilities and provisions | 125,966 | 125,966 | -- | 115,281 | 10,243 | 442 | -- | -- |
| **Total** | **2,688,906** | **2,715,083** | **202,656** | **1,493,696** | **593,703** | **420,619** | **4,409** | **--** |

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

## 27. Financial risk management *(continued)*

### (d) Market risk

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

**Management of market risk**

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

**Exposure to market risk – trading portfolios**

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

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

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 rates risk | 5,774 | 8,570 | 1,147 | 6,409 | 6,945 | 4,080 |
| Common share risk | | | | -- | -- | -- |
| Currency risk | 4,646 | 5,898 | 2,978 | 1,839 | 5,218 | 315 |
| Option risk | 377 | 856 | -- | -- | -- | -- |
| **Total value at risk (12.5 times)** | **134,963** | **191,550** | **51,563** | **103,100** | **152,038** | **54,938** |

# 27. Financial risk management *(continued)*

## Market risk *(continued)*

### Exposure to interest rate risk – non-trading portfolios

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

| 31 December 2008 | Less than one month | 1-3 months | 3-12 months | 1 -5 years | Over 1 year | Non-Interest | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 244,705 | -- | -- | -- | -- | 24,504 | **269,209** |
| Loans and advances to banks | 250,708 | -- | -- | -- | -- | 26,818 | **277,526** |
| Loans and advances to customers | 1,074,005 | 343,781 | 228,349 | 401,105 | 291,449 | 2,785 | **2,341,474** |
| Investment securities | -- | 2,138 | 91,674 | 294,127 | 359,113 | -- | **747,052** |
| Other assets | 72,827 | 424 | -- | -- | -- | 45,270 | **118,521** |
| **Total assets** | **1,642,245** | **346,343** | **320,023** | **695,232** | **650,562** | **99,377** | **3,753,782** |
| Deposits from banks | 20,427 | 8,440 | 4,544 | -- | -- | 203 | **33,614** |
| Deposits from customers | 1,647,552 | 302,045 | 259,314 | 37,193 | 8,144 | 162,353 | **2,416,601** |
| Obligations under repurchase agreements | 45,510 | 188,620 | -- | -- | -- | -- | **234,130** |
| Funds borrowed | 41,430 | 173,014 | 274,300 | -- | -- | -- | **488,744** |
| Other liabilities and provisions | 680 | -- | -- | -- | -- | 103,935 | **104,615** |
| Income tax payables | -- | -- | | -- | -- | 1,818 | **1,818** |
| **Total liabilities** | **1,755,599** | **672,119** | **538,158** | **37,193** | **8,144** | **268,309** | **3,279,522** |
| **Net** | **(113,354)** | **(325,776)** | **(218,135)** | **658,039** | **642,418** | **(168,932)** | **474,260** |

| 31 December 2007 | Less than one month | 1-3 months | 3-12 months | 1 -5 years | Over 1 year | Non-Interest | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 314,565 | -- | -- | -- | -- | 23,219 | 337,784 |
| Loans and advances to banks | 273,869 | 426 | 2,631 | -- | -- | 3,993 | 280,919 |
| Loans and advances to customers | 551,313 | 779,777 | 197,484 | 118,117 | 257,425 | -- | 1,904,116 |
| Investment securities | 2,449 | 36,897 | -- | 216,046 | 141,242 | -- | 396,634 |
| Other assets | 104,511 | 4,225 | 80 | 112 | 44 | 68,797 | 177,769 |
| **Total assets** | **1,246,707** | **821,325** | **200,195** | **334,275** | **398,711** | **96,009** | **3,097,222** |
| Deposits from banks | 1,240 | -- | -- | -- | -- | 501 | 1,741 |
| Deposits from customers | 1,216,376 | 455,697 | 35,108 | -- | -- | 202,155 | 1,909,336 |
| Obligations under repurchase agreements | 76,706 | 56,491 | -- | -- | -- | -- | 133,197 |
| Funds borrowed | 83,083 | 57,647 | 373,768 | 4,168 | -- | -- | 518,666 |
| Other liabilities and provisions | 966 | 4,454 | -- | -- | -- | 129,849 | 135,269 |
| Income tax payables | -- | -- | -- | -- | -- | 5,293 | 5,293 |
| **Total liabilities** | **1,378,371** | **574,289** | **408,876** | **4,168** | **--** | **337,798** | **2,703,502** |
| **Net** | **(131,664)** | **247,036** | **(208,681)** | **330,107** | **398,711** | **(241,789)** | **393,720** |

## 27. Financial risk management *(continued)*

### Market risk *(continued)*

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 | - | - | - | 12.00 |
| Loans and advances to banks | 2.09 | 1.64 | - | 18.25 |
| Loans and advances to customers | 7.35 | 6.79 | 4.33 | 24.98 |
| Investment securities | - | 7.34 | - | 15.24 |
| Deposits from banks | 5.50 | 5.19 | - | 16.50 |
| Deposits from customers | 5.05 | 5.25 | - | 19.50 |
| Obligations under repurchase agreements | - | 3.03 | - | 15.19 |
| Funds borrowed | 5.74 | 3.89 | - | 16.71 |

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

**Interest rate sensivity of the trading and non-trading portfolios**

Interest rate sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the consolidated net interest income as at and for the year ended 31 December 2008, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008. 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.

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| **31 December 2008** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets at fair value through profit or loss | (146) | 147 | (146) | 147 |
| Floating rate financial assets | 17,339 | (17,339) | 17,339 | (17,339) |
| Floating rate financial liabilities | (76) | 76 | (76) | 76 |
| Derivative financial instruments | 311 | (221) | 311 | (221) |
| **Total, net** | **17,428** | **(17,337)** | **17,428** | **(17,337)** |

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| **31 December 2007** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets at fair value through profit or loss | (29) | 32 | (29) | 32 |
| Floating rate financial assets | 10,528 | (10,528) | 10,528 | (10,528) |
| Floating rate financial liabilities | (1,805) | 1,805 | (1,805) | 1,805 |
| Derivative financial instruments | 10,158 | (10,915) | 10,158 | (10,915) |
| **Total, net** | **18,852** | **(19,606)** | **18,852** | **(19,606)** |

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

# 27. Financial risk management *(continued)*

## Market risk *(continued)*

### Currency risk

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

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

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2008, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

| As at 31 December 2008 | US Dollar | Euro | Japanese Yen | Others | Total |
|---|---|---|---|---|---|
| ***Assets:*** | | | | | |
| Cash and balances with the Central Bank | 244,672 | 5,706 | 150 | 868 | 251,396 |
| Deposits with banks and other financial institutions | 194,910 | 64,450 | 115 | 273 | 259,748 |
| Financial assets at fair value through profit or loss | 22,184 | 52 | -- | -- | 22,236 |
| Investment securities | 362,727 | 2,139 | -- | -- | 364,866 |
| Loans and receivables | 430,859 | 338,060 | 215,648 | 30,514 | 1,015,081 |
| Derivative financial instruments | 340 | -- | -- | -- | 340 |
| Other assets | 72,864 | 1,489 | -- | -- | 74,353 |
| **Total assets** | **1,328,556** | **411,896** | **215,913** | **31,655** | **1,988,020** |
| ***Liabilities:*** | | | | | |
| Deposits from other banks | 20,301 | 8,750 | -- | 4,543 | 33,594 |
| Deposits from customers | 626,979 | 528,445 | 315 | 4,835 | 1,160,574 |
| Other money market deposits | 228,892 | -- | -- | -- | 228,892 |
| Funds borrowed | 435,944 | 19,825 | -- | -- | 455,769 |
| Derivative financial instruments | 960 | -- | -- | 52 | 1,012 |
| Other liabilities and provisions | 2,029 | 2,737 | 7 | 4 | 4,777 |
| **Total liabilities** | **1,315,105** | **559,757** | **322** | **9,434** | **1,884,618** |
| **Net on-balance sheet position** | **13,451** | **(147,861)** | **215,591** | **22,221** | **103,402** |
| ***Off-balance sheet position:*** | | | | | |
| Net notional amount of derivatives | 44,967 | 95,427 | (214,915) | (22,781) | (97,302) |
| **Net position** | **58,418** | **(52,434)** | **676** | **(560)** | **6,100** |

| As at 31 December 2007 | US Dollar | Euro | Japanese Yen | Others | Total |
|---|---|---|---|---|---|
| Total assets | 900,230 | 326,840 | 27,487 | 18,594 | 1,273,151 |
| Total liabilities | 1,218,156 | 274,162 | 1,411 | 2,750 | 1,496,479 |
| **Net on balance sheet position** | **(317,926)** | **52,678** | **26,076** | **15,844** | **(223,328)** |
| ***Off-balance sheet position:*** | | | | | |
| Net notional amount of derivatives | 326,117 | (56,729) | (31,974) | (17,366) | 220,048 |
| **Net position** | **8,191** | **(4,051)** | **(5,898)** | **(1,522)** | **(3,280)** |

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

## 27. Financial risk management *(continued)*

### Market risk *(continued)*

**Exposure to Currency risk sensitivity analysis**

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

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | **Profit or loss** | **Equity (*)** | **Profit or loss** | **Equity (*)** |
| US Dollar | 5,842 | 6,571 | 2,125 | 2,518 |
| EUR | (5,244) | 1,235 | (2,927) | (452) |
| Other currencies | 5,156 | 5,156 | (578) | (578) |
| **Total, net** | **5,754** | **12,962** | **(1,380)** | **1,488** |

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

*Fair value information*

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

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

Fair value of security investments is YTL 718,494 (31 December 2007: YTL 392,833), whereas the carrying amount is YTL 747,052 (31 December 2007: YTL 396,634) in the accompanying consolidated balance sheet as at 31 December 2008.

## 27. Financial risk management *(continued)*

### (e) Operational risk

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

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

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

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years 2005, 2006 and 2007. The amount calculated as YTL 28,111 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 351,388.

### (f) Capital management – regulatory capital

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

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

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

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement as of 31 December 2008 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

## 27. Financial risk management *(continued)*

### Capital management – regulatory capital *(continued)*

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

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

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 31 December 2008 and 31 December 2007 was as follows:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Tier 1 capital | 531,324 | 373,497 |
| Tier 2 capital | 10,304 | 7,398 |
| Deductions from capital | (2,837) | (9,124) |
| Total regulatory capital | 538,791 | 371,771 |
| Risk-weighted assets | 2,628,506 | 2,238,727 |
| Value at market risk | 88,063 | 109,013 |
| Operational risk | 351,388 | 295,150 |
| Capital ratios | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk | 17.56% | 14.07% |
| Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk | 17.32% | 14.13% |

## 28. Other events

The Bank's management has decided to implement growth target in credit card business with brand sharing with an existing brand in the market and decided to collaborate with Yapı ve Kredi Bankası AŞ in World credit card programme. The Bank has signed a collaboration agreement covering 5 years on 30 June 2008.

## 29. Subsequent events

As per the principle regarding "Essentials of the application of the use of Turkish Lira and Kuruş in private sector accounting system", included in "Numbered 15 General Communique of Application of Accounting System" issued by Ministry of Finance in 26 December 2008 dated and 27092 numbered Official Gazette, it has been assessed that the accounting entries are to be recorded in New Turkish Lira and New Kuruş till the end of 31 December 2008. The Communique came into effect on issue date. Beginning from 1 January 2009, the accounting entries are to be recorded in Turkish Lira and Kuruş.