Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

Independent Auditors' Report on Consolidated Financial Information 31 December 2008

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

26 February 2009

This report contains 1 page of independent auditors' report and 67 pages of financial statements and notes to the financial statements.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

TABLE OF CONTENTS

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
Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

We have audited the accompanying consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") 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 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 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.

26 February 2009
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM AŞ

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Balance Sheet
As of 31 December 2008
(Currency - In thousands of New Turkish Lira)

	Notes	2008	2007
ASSETS			
Cash and balances with central banks	*11*	44,980	12,740
Due from banks and financial institutions	*11*	77,085	88,335
Interbank and other money market placements	*11*	149,050	29,467
Reserve deposits at central banks	*12*	102,947	79,608
Trading assets	*13*	14,180	3,118
Investment securities	*14*	80,294	116,837
Loaned securities	*14*	10,798	664
Receivables from customers due to brokerage activities		193	7,528
Loans and advances to customers	*15*	1,156,941	764,738
Finance lease receivables	*16*	19,514	32,645
Property and equipment	*17*	18,628	16,837
Intangible assets	*18*	54,650	42,095
Deferred tax assets	*10*	774	2,907
Other assets	*19*	24,858	7,970
Total assets		**1,754,892**	**1,205,489**
LIABILITIES			
Deposit from other banks	*20*	118	130
Customer deposits	*20*	88,498	93,632
Other money market deposits	*20*	21,283	2,185
Trading liabilities	*13*	10,194	5,954
Funds borrowed	*21*	1,067,730	660,608
Other liabilities	*22*	93,862	82,353
Provisions	*23*	2,363	526
Current tax liabilities	*10*	-	1,775
Deferred tax liabilities	*10*	3,680	89
Total liabilities		**1,287,728**	**847,252**
EQUITY			
Share capital and share premium	*24*	380,724	301,408
Retained earnings		88,058	56,940
Available-for-sale reserve, net of tax	*24*	(1,583)	(235)
Currency translation reserve	*24*	(35)	124
Total equity		**467,164**	**358,237**
Total equity and liabilities		**1,754,892**	**1,205,489**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Income Statement
For the year ended 31 December 2008

(Currency - In thousands of New Turkish Lira)

	Notes	2008	2007
Interest income			
Interest on loans and advances		140,867	70,869
Interest on deposits with other banks and financial institutions		4,732	6,188
Interest income on investment securities		20,134	13,640
Interest on interbank and other money market placements		6,690	406
Interest on financial leases		2,291	3,267
Other interest income		4,721	12,312
Total interest income		**179,435**	**106,682**
Interest expense			
Interest on deposit		(1,784)	(118)
Interest on other money market deposits		(2,207)	(3,667)
Interest on funds borrowed		(59,880)	(26,580)
Other interest expense		(12,281)	(9,109)
Total interest expense		**(76,152)**	**(39,474)**
Net interest income		**103,283**	**67,208**
Fees and commission income	*5*	20,342	14,715
Fees and commission expense	*5*	(2,957)	(3,819)
Net fee and commission income		**17,385**	**10,896**
Net trading income	*6*	168	240
Foreign exchange gain, net		8,215	3,538
Other operating income	*7*	2,041	1,103
Total operating income		**131,092**	**82,985**
Net impairment loss on financial assets	*15 and 16*	**(14,878)**	**(5,489)**
Personnel expenses	*8*	(37,677)	(20,598)
Depreciation and amortisation	*17 and 18*	(6,866)	(3,572)
Administrative expenses	*9*	(27,330)	(15,195)
Taxes other than on income		(1,700)	(1,299)
Other expenses		(2,661)	(2,794)
Total operating expense		**(76,234)**	**(43,458)**
Profit from operating activities before income tax		**39,980**	**34,038**
Income tax	*10*	(8,862)	(6,953)
Net profit for the year		**31,118**	**27,085**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Changes in Equity
For the year ended 31 December 2008
(Currency - In thousands of New Turkish Lira)

	Notes	Share capital	Share premium	Adjustment to share capital	Available-for-sale reserve, net of tax	Currency translation reserve	Retained earnings	Total
At 1 January 2007		**111,896**	**70,701**	**23,311**	**(58)**	**-**	**29,855**	**235,705**
Share capital increase – Cash		86,400	9,100	-	-	-	-	95,500
Share capital increase – Transfer from share premium		79,801	(79,801)	-	-	-	-	-
Net change in unrealised gain/(loss) on available-for sale investments		-	-	-	(177)	-	-	(177)
Currency translation differences		-	-	-	-	124	-	124
Net profit for the year		-	-	-	-	-	27,085	27,085
At 31 December 2007 / 1 January 2008		**278,097**	**-**	**23,311**	**(235)**	**124**	**56,940**	**358,237**
Share capital increase – Cash	*24*	59,195	20,121	-	-	-	-	79,316
Net change in unrealised gain/(loss) on available-for sale investments	*24*	-	-	-	(1,348)	-	-	(1,348)
Currency translation differences	*24*	-	-	-	-	(159)	-	(159)
Net profit for the year		-	-	-	-	-	31,118	31,118
At 31 December 2008		**337,292**	**20,121**	**23,311**	**(1,583)**	**(35)**	**88,058**	**467,164**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Cash Flow Statement
For the year ended 31 December 2008

(Currency - In thousands of New Turkish Lira)

	Notes	2008	2007
Cash flows from operating activities			
Interest received		166,415	84,178
Interest paid		(67,447)	(30,065)
Fees and commissions received		22,792	16,605
Trading income		168	240
Recoveries of loans previously written off		22,051	9,031
Fees and commissions paid		(10,194)	(8,583)
Cash payments to employees and other parties		(36,073)	(20,504)
Cash received from other operating activities		(13,942)	21,842
Cash paid for other operating activities		(34,804)	(19,531)
Gain of sale of property and equipment		113	-
Income taxes paid		(8,637)	(8,287)
		40,442	**44,926**
Change in banks and financial institutions		(38,900)	-
Change in trading assets		425	(28)
Change in reserve deposits at central banks		(23,594)	(45,519)
Change in loans and advances		(414,122)	(496,759)
Change in finance lease receivables		12,947	5,049
Change in other assets		(6,676)	(263)
Change in receivables from customers due to brokerage activities		7,335	4,914
Change in deposit from other banks		(12)	2
Change in customer deposit		(5,134)	(6,488)
Change in interbank and other money market deposits		19,086	(21,334)
Change in other liabilities		9,521	17,818
Net cash used in operating activities		**(398,682)**	**(497,682)**
Cash flows from investing activities			
Purchases of available for sale securities	*14*	(131,327)	(112,182)
Proceeds from sale and redemption of available for sale securities	*14*	161,866	41,088
Purchases of property and equipment	*17*	(6,464)	(10,187)
Proceeds from the sale of premises and equipment		781	810
Purchases of intangible assets	*18*	(4,045)	(2,118)
Proceeds from sale of intangible assets		389	10
Net cash provided by / (used in) investing activities		**21,200**	**(82,579)**
Cash flows from financing activities			
Proceeds from share capital increase	*24*	79,316	95,500
Proceeds from funds borrowed		2,486,484	1,162,199
Repayment of funds borrowed		(2,088,007)	(663,194)
Acquisition of subsidiary, net of cash acquired	*4*	-	6,798
Net cash provided by financing activities		**477,793**	**601,303**
Effect of net foreign exchange difference on monetary items		874	(7,554)
Net increase in cash and cash equivalents		**101,185**	**13,488**
Cash and cash equivalents at 1 January	*11*	129,591	116,103
Cash and cash equivalents at 31 December	*11*	**230,776**	**129,591**

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("BankPozitif" or "the Bank") was incorporated in Turkey on 9 April 1999 as Toprak Yatırım Bankası A.Ş. as a subsidiary of Toprakbank A.Ş. On 1 December 2001, Toprakbank A.Ş. (the previous parent company) was taken over by the Saving Deposit Insurance Fund ("SDIF"). As a result, SDIF became the controlling shareholder of Toprak Yatırım Bankası A.Ş. C Faktoring A.Ş. (formerly Elit Finans Faktoring H metleri A.Ş.) acquired 89.92% of the Bank's shares on 1 November 2002 in an auction from SDIF. Following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş. and the share capital was increased to YTL 47,500. C Faktoring A.Ş. and its nominees increased their shareholding to 100% by share capital increases and by purchasing other third party minority shareholders' shares.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalised and a final share subscription agreement was signed on 13 December 2005. Under this agreement, Bank Hapoalim B.M. ("Bank Hapoalim"), Israel's leading financial group and the largest bank, was to acquire a 57.55% stake in BankPozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim.

On 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş. Legal approvals have been obtained from Israeli and Turkish authorities in 2006 and extraordinary general assembly of the Bank was convened on 31 October 2006 concerning the new partnership.

At the extraordinary general assembly meeting held on 31 October 2006, the Bank's share capital was increased by YTL 64,396 to YTL 111,896 and the share premium amount for the new issued shares paid by Tarshish was decided to be equal to YTL 70,701. At the extraordinary general assembly meeting held on 15 January 2007 and 17 December 2007, the Bank's share capital was increased from YTL 111,896 to YTL 278,097.

At the extraordinary general assembly meeting held on 25 March 2008, the Bank's share capital was increased from YTL 278,097 to YTL 337,292. Based on the other shareholders' waiver of their pre-emption rights, Tarshish committed to pay YTL 59,195 nominal value and the premiums to the share capital of the Bank. The share premium amount to be paid by Tarshish for newly issued shares was YTL 20,121. Total amount of YTL 79,316 was deposited to the Bank's account on 25 March 2008. The Bank obtained all the regulatory and legal approvals related with the share capital increase and on 8 April 2008 and share capital increase was finalised.

As at 31 December 2008, 65.00% (2007 – 57.55%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 35.00% (2007 – 42.45%) of the shares belong to C Faktoring A.Ş.

(Currency - In thousands of New Turkish Lira)

1. Corporate information *(continued)*

The registered head office address of the Bank is located at Rüzgarlıbahçe Mah. Kayın Sok. No: 3 Yesa Blokları Kavacık 34805 Beykoz – Istanbul / Turkey.

Nature of activities of the Bank / Group

The Bank carries out its activities as corporate and retail banking. The Bank's corporate services mainly include corporate lending, project finance, trade finance and financial leasing. In retail banking, the Bank mainly provides retail lending products such as mortgages, home equity, vehicle and consumer loans to its customers. Apart from lending business, the Bank provides insurance and investment products to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets and from its counterparties. The Bank's subsidiary; Joint Stock Company BankPozitiv Kazakhstan ("JSC BankPozitiv") (formerly JSC Demir Kazakhstan) is entitled to accept deposit from public. Any deposit related financial information is solely results of the operation of JSC BankPozitiv.

JSC BankPozitiv is a commercial bank and provides general banking services to its clients, accepts deposit, grants cash and non-cash loans, provides broker/dealer services, cash payment and other banking services for its commercial and retail customers through its head office and five branches located in Kazakhstan.

Pozitif Menkul Değerler A.Ş. ("Pozitif Menkul") is involved in intermediary and brokerage activities and also provides corporate finance, initial public offering, advisory, merger and acquisitions, custody and underwriting services to its customers.

C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. ("C Bilişim") is specialised in software development and provides other technological support services to the financial sector including the Bank and its subsidiaries. At the General Assembly meeting held on 27 June 2008, the C Bilişim's share capital was increased by YTL 2,250 to YTL 4,000.

Pratic İletişim ve Teknoloji Hizmetleri Ticaret Anonim Şirketi ("Pratic") and C Telekomünikasyon Hizmetleri A.Ş. ("C Telekom") are dormant companies. The Group's effective shareholding in Pratic and C Telekom are 100% and 100%, respectively and they are carried at cost less impairment losses. Since Pratic and C Telekom are not operating; the financial statements of Pratic and C Telekom were not included to the accompanying consolidated financial statements.

As at 31 December 2008, the Bank provides services through its head office and 10 branches located in Istanbul, Ankara and Izmir. As at 31 December 2008, the number of employees for Bank and its consolidated subsidiaries are 252 and 395 respectively.

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

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

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			2008	2007
Pozitif Menkul Değerler A.Ş.	Istanbul/Turkey	Intermediary, brokerage, corporate finance and underwriting activities	100	100
C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş.	Istanbul/Turkey	Software development and technology	100	100
JSC BankPozitiv	Almaty/Kazakhstan	Commercial banking	100	100

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Capital Market Boards of Turkey, Turkish Commercial Code and Tax Legislation. The Bank's foreign subsidiary maintains its books of account and prepares its statutory financial statements in its local currencies and in accordance with the regulations of the country in which it operates.

The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira ("YTL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of YTL until 31 December 2005, consolidation of subsidiaries and deferred taxation.

The consolidated financial statements as at 31 December 2008 of the Bank are authorised for issue by the management on 26 February 2009. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value

2. Basis of preparation *(continued)*

2.3 Functional 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.

The restatement for the changes in the general purchasing power of YTL until 31 December 2005 is based on International Accounting Standard 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29"). 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 the corresponding figures for previous year be restated in the same terms.

IAS 29 describes characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgement when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in October 2004. Based on these considerations, restatement pursuant to IAS 29 has been applied until 31 December 2005 and Turkey ceased to be hyperinflationary effective from 1 January 2006.

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

2.4 Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, 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 recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are as follows;

Key sources of estimation uncertainty

Impairment of available-for-sale equity instruments:

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

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was YTL 46,403 (2007 – YTL 35,987) and there is no impairment recorded related to goodwill.

Allowances for credit losses

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of such loans, advances, finance lease receivables and receivables related with brokerage activities as at 31 December 2008 is YTL 1,176,648 (2007 – YTL 804,911) net of impairment allowance of YTL 25,050 (2007 – YTL 9,918).

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. As at 31 December 2008, the carrying amount of derivative financial instrument assets YTL 14,180 (2007 – YTL 2,692) and the carrying amount of derivative financial instrument liabilities is YTL 10,194 (2007 – YTL 5,954).

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Income taxes

The Group is subject to income taxes in Turkey and in Kazakhstan. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31 December 2008, the Group does not have any net income taxes payable (2007 – YTL 1,775).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 31 December 2008, the Group carries a net deferred tax liabilities amounting to YTL 2,906 (2007 – YTL 2,818 of deferred tax assets).

Employee termination benefits

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 23 are reviewed regularly. The carrying value of employee termination benefit provisions as at 31 December 2008 is YTL 117 (2007 - YTL 138).

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.11.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

During the period, the Group modified the income statement classification of interest income and expense arising from currency swaps, cross currency swaps and futures from "Foreign exchange gain, net" to "Other interest income" and "Other interest expense". Comparative amounts were reclassified for consistency, which were resulted in YTL 10,151 being reclassified from "Foreign exchange gain, net" to "Other interest income" and YTL 4,515 being reclassified from "Foreign exchange gain, net" to "Other interest expense".

(Currency - In thousands of New Turkish Lira)

3. Significant accounting policies

3.1 Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognised by the Group.

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

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below).

Foreign currency translation rates used by the Group are as follows:

	USD / YTL (full)	EUR / YTL (full)	USD / KZT (full)
31 December 2006	1.4131	1.8586	-
31 December 2007	1.1708	1.6976	120.30
31 December 2008	1.5123	2.1408	120.79

3. Significant accounting policies *(continued)*

3.2 Foreign currency *(continued)*

ii) Foreign operations

The asset and liabilities of foreign subsidiary are translated into presentation currency of the Group at the rate of exchange ruling at the balance sheet date. The income statement of foreign subsidiary is translated at the weighted average exchange rates after the acquisition date. On consolidation exchange differences arising from the translation of the net investment in foreign entity are included in equity as currency translation differences.

Foreign currency differences, arising from foreign subsidiary, are recognised directly in equity. Such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

iii) Hedge of net investment in foreign operation

When a derivative (or a non-derivative financial liability) is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised directly in equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in equity is removed and included in consolidated income statement on disposal of the foreign operation.

3.3 Interest

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.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Any interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate options is presented as other interest income and expense in the accompanying consolidated financial statements.

3.4 Fees and commission

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

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

3. Significant accounting policies *(continued)*

3.5 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.6 Dividends

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

3.7 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities

Recognition

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognised to the extent of the Group's continuing involvement in the asset.

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

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

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated 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 realise the asset and settle the liability simultaneously.

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

Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, futures and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in consolidated income statement.

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

Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are 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.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events

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

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

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Repurchase and resale transactions

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

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

3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated balance sheet.

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated balance sheet with transaction costs taken directly to consolidated income statement. All changes in fair value are recognised as part of net trading income in consolidated income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3.11 Due from banks and financial institutions and loans and advances to customers

"Due from banks and financial institutions" and "Loans and advances to customers" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts due from banks and financial institutions and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net impairment loss on financial assets".

3. Significant accounting policies *(continued)*

3.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Bank has the intent and ability to hold until maturity. Investment securities held-to-maturity are initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in the consolidated income statement.

There are no violations of the tainting rule.

Fair value through profit or loss

The Group does not any investment securities at fair value through profit or loss as of 31 December 2008.

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve"

Interest income is recognised in consolidated income statement using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in consolidated income statement.

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

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in consolidated income statement.

3.13 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

3. Significant accounting policies *(continued)*

3.13 Property and equipment *(continued)*

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 50 years
- office equipment, furniture and fixtures 4-10 years
- motor vehicles 5-6 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3.14 Intangible assets

i) Goodwill

Goodwill arises on the acquisition of subsidiaries or businesses.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in consolidated income statement.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in consolidated income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to fifteen years and are assigned accordance with the existing statutory tax law.

3. Significant accounting policies *(continued)*

3.15 Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.16 Leases

The Group as lessee

Operating leases

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

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

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as lessor

Finance leases

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

3.17 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies *(continued)*

3.17 Impairment of non-financial assets *(continued)*

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.18 Deposits and funds borrowed

The Bank is not entitled to collect deposits. Its foreign subsidiary is entitled to collect deposit.

Deposits and funds borrowed are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.19 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.20 Employee benefits

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

i) Defined benefit plans

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Foreign subsidiary is subject to its local regulation and also required to make lump-sum termination indemnities.

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognised in the consolidated income statement.

ii) Defined contribution plans

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

The Group does not have any internally set defined contribution plan.

3. Significant accounting policies *(continued)*

3.21 Fiduciary assets

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

3.22 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as of and for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 financial statements, with retrospective application. However, it is not expected to have any impact on the consolidated financial statements.

- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

  The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

  – Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.

  – Transaction costs, other than share and debt issue costs, will be expensed as incurred.

  – Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.

  – Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3, becomes mandatory for the Group's 2010 financial statements. However, it is not expected to have any impact on the financial statements.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Group's principal activity is to provide banking services mainly in one geographical segment (Turkey). Therefore, it is not expected to have any impact on the consolidated financial statements.

3. Significant accounting policies *(continued)*

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

- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements. However, it is not expected to have any impact on the consolidated financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) 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 amendments to IAS 27, which become mandatory for the Group's 2010 financial statements, are not expected to have an impact on the consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for theses amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

3. Significant accounting policies *(continued)*

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

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, applies prospectively to the Group's existing hedge relationships and net investments. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

(Currency - In thousands of New Turkish Lira)

4. Acquisition of subsidiaries

Business combination

On 21 November 2007, the Bank acquired all of the shares in JSC BankPozitiv for USD 55.9 million. JSC BankPozitiv was incorporated in the Republic of Kazakhstan in 1992 and provides general banking services to its clients, accepts deposit from public, grants cash and non-cash loans, provides broker/dealer services, cash payment and other banking services for its commercial and retail customers.

From the date of acquisition to year end of 2007, JSC BankPozitiv has contributed YTL 221 to the net profit of the Bank. If the combination had taken at the beginning of the year, the total profit for the year of 2007 would have been YTL 3,202 higher at YTL 30,287.

In thousand of USD	**Pre-acquisition carrying amounts**	**Fair value recognised on acquisition**
Cash and balances with central banks	4,182	4,182
Due from other banks and financial institutions	57,433	57,433
Reserve deposits at central banks	8,684	8,684
Investment securities	4,146	4,146
Loans and advances to customers	31,159	31,159
Property, equipment and intangible assets	4,330	4,330
Other assets	1,767	1,767
Deposits from other banks	(108)	(108)
Customer deposits	(84,390)	(84,390)
Deferred tax liabilities	(39)	(39)
Other liabilities	(1,781)	(1,781)
Net identifiable assets and liabilities	**25,383**	**25,383**
Goodwill on acquisition	30,502	
Consideration paid, satisfied in cash	**55,885**	
Cash acquired	61,615	
Net cash inflow	**5,730**	

Net cash inflow from acquisition is amounting to YTL 6,798.

Pre-acquisition carrying amounts were determined based on applicable IFRS immediately before acquisition.

(Currency - In thousands of New Turkish Lira)

5. Net fee and commission income

	2008	2007
Fee and commission income		
Credit related fees and commissions	9,519	7,289
Financial guarantee contracts issued	4,646	4,175
Banking service commissions	3,915	470
Brokerage fees	855	2,461
Other	1,407	320
Total fee and commission income	**20,342**	**14,715**
Fee and commission expense		
Corresponding bank fees	912	1,676
Derivative transaction fees and commissions	651	27
Other	1,394	2,116
Total fee and commission expense	**2,957**	**3,819**
Net fee and commission income	**17,385**	**10,896**

6. Net trading income

	2008	2007
Fixed income	200	200
Equities	(44)	64
Other	12	(24)
Total	**168**	**240**

7. Other operating income

	2008	2007
Software sales and rental income	458	472
Consultancy income	335	35
Income from underwriting activities	-	43
Other	1,248	553
Total	**2,041**	**1,103**

(Currency - In thousands of New Turkish Lira)

8. Personnel expenses

	2008	2007
Wages and salaries	32,460	17,405
Other fringe benefits	3,048	974
Compulsory social security obligations	2,144	2,125
Provision for employee termination benefits	25	94
Total	**37,677**	**20,598**

The number of employees for the years is:

	2008	2007
The Bank	252	274
Subsidiaries	395	364
Total	**647**	**638**

9. Administrative expenses

	2008	2007
Operating lease expenses	7,736	3,400
Consultancy expense	4,683	1,446
Communication expenses	2,765	1,564
Advertising expenses	1,616	1,101
Information technology expenses	1,593	2,680
Representation expenses	1,581	1,070
Transportation expenses	810	606
Gasoline expenses	542	619
Others	6,004	2,709
Total	**27,330**	**15,195**

(Currency - In thousands of New Turkish Lira)

10. Taxation

General information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and Kazakhstan.

In Turkey, corporate tax rate is reduced to 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

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

Furthermore, qualifying capital investments to be made until the end of 31 December 2008 within the scope of the investment projects started before 31 December 2005 will be subject to investment incentive until the end of 31 December 2008.

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

The corporate tax rate for foreign subsidiary in Kazakhstan is 30% as at 31 December 2008 and 2007.

As at 31 December 2008 and 2007, prepaid income taxes are netted off with the current tax liability as stated below:

	2008	**2007**
Income tax liability	3,377	9,488
Prepaid income tax	(3,377)	(7,713)
Income taxes payable	**-**	**1,775**

(Currency - In thousands of New Turkish Lira)

10. Taxation *(continued)*

Income tax recognised in the income statement

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

	2008	2007
Current tax		
Current income tax	8,126	8,903
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	736	(1,950)
Income tax expense reported in the income statement	**8,862**	**6,953**

Reconciliation of effective tax rate

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

	2008	2007
Profit before income tax	39,980	34,038
Income tax using the domestic corporation tax rate 20% (2007 – 20%)	7,996	6,808
Effect of different tax rate in other countries	(113)	(16)
Non-deductible expenses	1,176	3,394
Tax exempt income	(609)	(619)
Others, net	412	(2,614)
Total income tax expense in the income statement	**8,862**	**6,953**

Current tax expense / (credit) recognised directly in equity

	2008	2007
Balance at 1 January	508	-
Foreign currency subsidiary valuation – net investment hedge	(4,816)	409
Available-for-sale financial assets	67	99
Tax expense / (credit) reported in equity	**(4,241)**	**508**

Deferred tax expense / (income) recognised directly in equity

	2008	2007
Balance at 1 January	(567)	-
Foreign currency subsidiary valuation	4,816	(409)
Available-for-sale financial assets	158	(158)
Deferred tax expense / (income) reported in equity	**4,407**	**(567)**

(Currency - In thousands of New Turkish Lira)

10. Taxation *(continued)*

Deferred tax

The deferred tax included in the consolidated balance sheet and changes recorded in the income tax expense are as follows:

	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
	2008	**2008**	**2008**	**2007**	**2007**	**2007**
Reserve for loan losses	2,341	-	931	1,410	-	887
Derivative financial instruments	-	(797)	(1,449)	652	-	859
Foreign currency subsidiary valuation[1]	-	(4,407)	-	409	-	-
Valuation of AFS[1]	-	-	-	158	-	-
Liability for defined benefit plans	436	-	334	102	-	75
Property and equipment	-	(533)	(82)	-	(451)	(344)
Valuation of HTM	-	(542)	(542)	-	-	-
Tax losses	395	-	347	-	-	-
Others, net	201	-	(275)	538	-	473
Deferred tax asset / (liability)	**3,373**	**(6,279)**		**3,269**	**(451)**	
Deferred tax income / (expense)			**(736)**			**1,950**

[1] Deferred tax income recognised in equity.

Reflected as:

	2008	**2007**
Deferred tax assets	774	2,907
Deferred tax liabilities	3,680	89

Movement of net deferred tax assets can be presented as follows:

	2008	**2007**
Deferred tax assets, net at 1 January	2,818	347
Acquisition of a subsidiary (Note 4)	-	(46)
Deferred tax recognised in the income statement	(736)	1,950
Deferred income tax recognised in equity	(4,974)	567
Exchange rate differences	(14)	-
Deferred tax assets / (liabilities), net at 31 December	**(2,906)**	**2,818**

(Currency - In thousands of New Turkish Lira)

11. Cash and cash equivalents

	2008	2007
Cash and balances with central banks	44,980	12,740
- Cash on hand	*5,036*	*6,568*
- Balances with central banks	*39,944*	*6,172*
Due from banks and financial institutions	77,085	88,335
Interbank and other money market placements	149,050	29,467
Cash and cash equivalents in the balance sheet	**271,115**	**130,542**
Less: Due from banks with original maturities of more than 3 months	(40,339)	(951)
Cash and cash equivalents in the cash flow statement	**230,776**	**129,591**

As at 31 December 2008 and 2007, the details of the balances with central banks, due from banks and financial institutions and interbank and other money market placements are as follows:

	2008			
	Amount		**Effective interest rate**	
	New Turkish Lira	**Foreign currency**	**New Turkish Lira**	**Foreign currency**
Balances with Central Bank	2	39,942	-	-
Due from banks and financial institutions	344	76,741	-	USD-1.01% EUR-4.23%
Interbank and other money market placements	149,050	-	16.18%	-
Total	**149,396**	**116,683**		

	2007			
	Amount		**Effective interest rate**	
	New Turkish Lira	**Foreign currency**	**New Turkish Lira**	**Foreign currency**
Balances with Central Bank	2	6,170	-	-
Due from banks and financial institutions	13,264	75,071	17.93%	USD 4.38-5.23% KZT-7.99%
Interbank and other money market placements	5,120	24,347	17.05%	KZT-7.40%
Total	**18,386**	**105,588**		

(Currency - In thousands of New Turkish Lira)

12. Reserve deposits at central banks

	2008	2007
New Turkish Lira	1,189	470
Foreign currency	101,758	79,138
	102,947	**79,608**

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

As at 31 December 2008 and 2007, required reserve ratios for YTL and foreign currency liability accounts with the Turkish Central Bank are 6% and 9% (2007 – 6% and 11%), respectively.

On 5 December 2008, Central Bank decreased the required reserve ratio for foreign currency liabilities to 9% from 11% and the remuneration on foreign currency required reserves has been terminated As at 31 December 2008 and 2007, required reserve ratio applicable for resident and nonresident Kazakh Tenge ("KZT") and foreign currency liabilities of the foreign subsidiary are 6% and 8%, respectively.

As at 31 December 2008, the interest rates applied for YTL and USD reserve deposits by the Turkish Central Bank are 12.02% and null (2007 – 12.52% and 2.40%), respectively. The interest rate applied for foreign subsidiary's reserve deposits is zero.

13. Trading assets

	2008		2007	
	Amount	**Effective interest rate**	**Amount**	**Effective interest rate**
Trading assets at fair value				
Debt instruments				
Turkish government bonds -YTL denominated	-	-	30	16.22%
	-		**30**	
Others				
Equity investment	-	-	396	-
	-		**396**	
Derivative transactions				
Derivative financial instruments	14,180	-	2,692	-
Total trading assets	**14,180**		**3,118**	

(Currency - In thousands of New Turkish Lira)

13. Trading assets *(continued)*

There are no trading securities pledged under repurchase agreements as at 31 December 2007.

As at 31 December 2007, no trading securities are kept for legal requirements or as a guarantee for stock exchange and money market operations.

As at 31 December 2007, all trading debt securities have fixed interest rates.

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 of one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures, currency options and interest rate options.

Sensitivity analysis – equity price risk

As at 31 December 2008, the Group does not hold publicly traded equity investments. As at 31 December 2007, a five percent increase in the share price of equity investment at the reporting date would have increased profit before tax by YTL 20, an equal change in the opposite direction would have decreased profit before tax by YTL 20.

Derivative financial instruments

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

		2008	
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**
Derivatives held for trading			
Forward purchase contract	11	8	3,449
Forward sale contract	31	5	3,421
Currency swap purchase	13,488	3,870	117,804
Currency swap sale	511	919	105,635
Future purchase contract	139	5,392	60,068
Future sales contract	-	-	65,464
Option purchase contract	-	-	60,492
Option sale contract	-	-	59,894
Option interest rate purchase contract	-	-	120,984
Total derivatives held for trading	**14,180**	**10,194**	**597,211**

(Currency - In thousands of New Turkish Lira)

13. Trading assets *(continued)*

	2007		
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent
Derivatives held for trading			
Forward purchase contract	241	1	17,365
Forward sale contract	67	36	17,077
Currency swap purchase	469	5,771	111,725
Currency swap sale	40	146	115,315
Future purchase contract	1,875	-	124,781
Future sales contract	-	-	122,859
Option purchase contract	-	-	29,270
Option sale contract	-	-	29,063
Option interest rate purchase contract	-	-	95,303
Total derivatives held for trading	**2,692**	**5,954**	**662,758**

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions.

14. Investment securities

	2008	2007
Held-to-maturity investment securities	36,221	-
Held-to-maturity investment securities – loaned securities	-	-
	36,221	**-**
Available-for-sale investment securities	44,073	116,837
Available-for-sale investment securities – loaned securities	10,798	664
	54,871	**117,501**
	91,092	**117,501**

Held-to-maturity investment securities

	2008		2007	
	Amount	Effective interest rate	Amount	Effective interest rate
Debt instruments				
Turkish government bonds – YTL denominated, net	30,167	21.63%	-	-
- *Gross amount*	*30,167*		-	
- *Impairment on government bonds*	-		-	
Corporate bond – USD denominated, net	6,054	9.25%	-	-
- *Gross amount*	*6,054*		-	
- *Impairment on corporate bond*	-		-	
Total held-to-maturity investment securities	**36,221**		**-**	

(Currency - In thousands of New Turkish Lira)

14. Investment securities *(continued)*

Held-to-maturity investment securities *(continued)*

The Bank has reclassified its marketable securities with nominal values amounting to YTL 24,700 and USD 5,000,000 from available-for-sale portfolio to held-to-maturity portfolio due to the change in its intention to hold these securities until maturity in accordance with IAS 39. As of reclassification date (1 September 2008), these marketable securities had a market value of YTL 28,063 and USD 3,714,281. YTL 505 and USD 1,285,719 loss on available-for-sale investment securities recognised previously in available-for-sale reserve under equity started to be amortised from equity accounts to profit or loss accounts by using the effective interest method. As of 31 December 2008, the remaining amount in other comprehensive income is YTL 457 and USD 1,191,045.

As of 31 December 2008, these marketable securities have a market value of YTL 27,913 and USD 2,693,870. Had the marketable securities not been reclassified to held-to-maturity securities, the shareholders' equity would have been YTL 1,796 and USD 119,913 lower than the one reported in the accompanying financial statements as of 31 December 2008.

There are no held to maturity securities given as collateral under repurchase agreements as at 31 December 2008 and 2007.

As at 31 December 2008, YTL denominated held-to-maturity investment securities comprise of inflation indexed notes with semi-annual coupon payments with a maturity of February 2012 and USD denominated investment securities comprise a fixed rate corporate bond with semi-annual coupon payment have maturity of July 2012.

As at 31 December 2008, Turkish government held-to-maturity investment securities with carrying value of YTL 30,167 (2007 – none) are kept in Central Bank and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations.

The movement in held-to-maturity investment securities (including loaned securities) is summarised as follows:

	2008	**2007**
Balance at 1 January	-	-
Additions	-	-
Disposals (sale and redemption)	-	-
Transfer from other portfolios	34,497	-
Transfer to other portfolios	-	-
Change in interest accrual	36	-
Exchange rate differences	1,688	-
Balance at end of the period/year end	**36,221**	**-**

(Currency - In thousands of New Turkish Lira)

14. Investment securities *(continued)*

Available-for-sale investment securities

	2008		2007	
	Amount	Effective interest rate	Amount	Effective interest rate
Available-for-sale investment securities at fair value				
Debt instruments				
Turkish government bonds – YTL denominated, net	43,846	21.84%	106,615	19.49%
- Gross amount	*43,846*		*106,615*	
- Impairment on government bonds	-		-	
Corporate bond – USD denominated, net	-	-	5,291	9.25%
- Gross amount	-		*5,291*	
- Impairment on corporate bond	-		-	
Foreign government bonds – KZT denominated	-	-	4,855	5.50%
- Gross amount	-		*4,855*	
- Impairment on government bonds	-		-	
Total available-for-sale securities at fair value	**43,846**		**116,761**	
Available-for-sale investment securities at cost				
Equity instruments – unlisted	227		76	
Total available-for-sale securities	**44,073**		**116,837**	

Carrying value of available-for-sale securities given as collateral under repurchase agreements which are classified as loaned securities and related liability are as follows:

	2008	2007
Available-for-sale securities	10,798	664
Related liability	9,393	664

Repurchase agreements mature within one month.

As at 31 December 2008, YTL denominated available-for-sale securities comprise Turkish government floating rate notes ("FRN") and inflation indexed notes that have a maturity range of February 2010 – February 2014. As at 31 December 2007, KZT denominated available-for-sale securities comprise a National Bank of the Republic of Kazakhstan bond.

As at 31 December 2008, government securities with carrying value of YTL 35,761 (2007 – YTL 49,027) are kept in the Central Bank and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for stock exchange and money market operations.

(Currency - In thousands of New Turkish Lira)

14. Investment securities *(continued)*

Available-for-sale investment securities *(continued)*

For the years ended 31 December, gains and losses from investment securities arise from redemption of available-for-sale securities.

	2008	2007
Redemption of available-for-sale securities	14,389	13,608

Unlisted equity instruments classified as available-for-sale securities represent the Group's equity holdings in the companies and common shares of Kazakhstan Stock Exchange ("KASE") (1.3% of shareholding) of JSC BankPozitiv which is a requirement for KASE membership, shares of which are not publicly traded. On 30 June 2008, C Bilişim acquired 100% of the ordinary shares of C Telekom for YTL 524 and YTL 379 of impairment was reflected as other expense in the accompanying consolidated financial statements. Consequently, they are reflected at cost less reserve for impairment, as a reliable estimate of their fair values could not be made.

The movement in available-for-sale investment securities (including loaned securities) is summarised as follows:

	2008	2007
Balance at 1 January	117,501	35,643
Addition through acquired subsidiary (Note 4)	-	4,854
Additions	131,327	112,182
Disposals (sale and redemption)	(161,866)	(41,088)
Transfer from other portfolios	-	-
Transfer to other portfolios	(34,497)	-
Change in interest accrual	1,009	6,087
Exchange rate differences	1,397	(177)
Balance at 31 December	**54,871**	**117,501**

(Currency - In thousands of New Turkish Lira)

15. Loans and advances to customers to customers

	2008						
	Amount				Effective interest rate		
	New Turkish Lira	**Foreign currency**	**Foreign currency indexed**	**Total**	**New Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Corporate loans	140,830	318,331	401,261	860,422	29.25%	USD-9.44%-15.79% EUR-9.05% KZT-15.80%	USD-8.40% EUR-10.00%
Consumer loans[(1)]	183,084	26,418	90,767	300,269	19.70%	USD-13.84% KZT-19.26%	USD-10.90% EUR- 7.89% CHF- 7.77% JPY- 5.89% GBP-11.28%
Total loans	**323,914**	**344,749**	**492,028**	**1,160,691**			
Loans in arrears				21,300			
Less: Specific reserve for impairment				(10,406)			
Less: Portfolio reserve for impairment				(14,644)			
				1,156,941			

[(1)] Commercial instalment loans amounting YTL 31,049 are included in consumer loans.

	2007						
	Amount				Effective interest rate		
	New Turkish Lira	**Foreign currency**	**Foreign currency indexed**	**Total**	**New Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Corporate loans	160,456	184,402	194,886	539,744	21.28%	USD-8.36%-12.79% EUR-8.58% KZT-13.63%	USD-9.07% EUR-9.06%
Consumer loans[(1)]	154,126	11,873	62,989	228,988	19.99%	USD-13.82% KZT-16.30%	USD-10.64% EUR- 7.31% CHF- 7.24% JPY- 5.64%
Total loans	**314,582**	**196,275**	**257,875**	**768,732**			
Loans in arrears				5,924			
Less: Specific reserve for impairment				(2,105)			
Less: Portfolio reserve for impairment				(7,813)			
				764,738			

[(1)] Commercial instalment loans amounting YTL 34,907 are included in consumer loans.

As at 31 December 2008, loans with floating rates are YTL 490,693 (2007 – YTL 403,108) and fixed rates are 669,998 (2007 – YTL 365,624).

(Currency - In thousands of New Turkish Lira)

15. Loans and advances to customers *(continued)*

Movements in non-performing loans:

	2008	2007
Non performing loans at 1 January	5,924	2,141
Acquisition of a subsidiary (Note 4)	-	2,210
Additions to non performing loans	37,369	12,804
Recoveries	(22,051)	(9,031)
Write-offs[1]	-	(2,200)
Exchange rate differences	58	-
Non performing loans at 31 December	**21,300**	**5,924**

[1] Includes YTL 2,200 write off from foreign subsidiary as at 31 December 2007.

Movements in the reserve for possible loan losses:

	2008	2007
Reserve at beginning of year	9,918	3,514
Acquisition of a subsidiary (Note 4)	-	3,115
Provision net of recoveries	14,878	5,489
- *Specific provision for loan impairment*	*12,372*	*525*
- *Portfolio provision for loan impairment*	*6,831*	*5,197*
- *Recoveries*	*(4,325)*	*(233)*
Loans written off during the year[1]	-	(2,200)
Exchange rate differences	254	-
	25,050	**9,918**

[1] Includes YTL 2,200 write off from foreign subsidiary as at 31 December 2007.

As at 31 December 2008, loans and advances on which interest is not being accrued, or where interest is suspended amounted to YTL 21,300 (2007 – YTL 5,924).

(Currency - In thousands of New Turkish Lira)

16. Finance lease receivables

	2008	2007
Less than one year	11,978	19,202
Between one and five years	10,002	17,473
Finance lease receivables, gross	**21,980**	**36,675**
Less: Unearned future income on finance leases	(2,466)	(4,030)
Net investment in finance leases	**19,514**	**32,645**
Less: Reserve for impairment	**-**	**-**
Finance lease receivables, net	**19,514**	**32,645**

The net investment in finance leases comprises:

	2008	2007
Less than one year	10,393	16,905
Between one and five years	9,121	15,740
	19,514	**32,645**

As at 31 December 2008, YTL 1,904 of net investment in finance leases is denominated in USD, YTL 16,926 of net investment in finance leases is denominated in EUR, YTL 684 of net investment in finance leases is denominated in KZT (2007 – YTL 8,280, YTL 23,995, YTL 171 and YTL 199 denominated in USD, EUR, KZT and YTL respectively).

As at 31 December 2008, the effective interest rate for finance lease receivables denominated in USD is 8.42% (2007 – 8.43%), in EUR 7.94% (2007 – 7.98%), in KZT 16.55% (2007 – 15.00% and 20.26% for YTL).

As at 31 December 2008, finance lease receivables amounting to YTL 15,676 (2007 – YTL 16,736) have floating interest rate and remaining YTL 3,838 (2007 – YTL 15,909) have fixed interest rates.

(Currency - In thousands of New Turkish Lira)

17. Property and equipment

	Land and buildings	Office equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
Cost					
Balance at 1 January 2007	645	5,470	2,267	252	8,634
Acquisition of a subsidiary (Note 4)	-	3,557	1,273	994	5,824
Additions	-	4,068	5,955	164	10,187
Disposals	(483)	(19)	(382)	(221)	(1,105)
Balance at 31 December 2007	**162**	**13,076**	**9,113**	**1,189**	**23,540**
Balance at 1 January 2008	162	13,076	9,113	1,189	23,540
Additions	2,180	2,148	2,025	111	6,464
Disposals	(162)	(479)	(792)	(125)	(1,558)
Exchange rate differences	-	1,093	392	323	1,808
Balance at 31 December 2008	**2,180**	**15,838**	**10,738**	**1,498**	**30,254**
Depreciation and impairment					
Balance at 1 January 2007	(53)	(2,087)	(529)	(166)	(2,835)
Acquisition of a subsidiary (Note 4)	-	(855)	(243)	(247)	(1,345)
Depreciation charge for the year	(3)	(1,423)	(1,364)	(28)	(2,818)
Disposals	40	1	133	121	295
Balance at 31 December 2007	**(16)**	**(4,364)**	**(2,003)**	**(320)**	**(6,703)**
Balance at 1 January 2008	(16)	(4,364)	(2,003)	(320)	(6,703)
Depreciation charge for the year	(10)	(2,510)	(2,402)	(227)	(5,149)
Disposals	16	270	376	2	664
Exchange rate differences	-	(268)	(92)	(78)	(438)
Balance at 31 December 2008	**(10)**	**(6,872)**	**(4,121)**	**(623)**	**(11,626)**
Carrying amounts					
Balance at 31 December 2006	592	3,383	1,738	86	5,799
Balance at 31 December 2007	146	8,712	7,110	869	16,837
Balance at 31 December 2008	2,170	8,966	6,617	875	18,628

(Currency - In thousands of New Turkish Lira)

18. Intangible assets

	Goodwill	Purchased software	Developed software	Total
Cost				
Balance at 1 January 2007	275	3,141	2,316	5,732
Acquisition of a subsidiary (Note 4)	35,712	768	-	36,480
Additions	-	1,540	578	2,118
Disposals	-	(10)	-	(10)
Balance at 31 December 2007	**35,987**	**5,439**	**2,894**	**44,320**
Balance at 1 January 2008	35,987	5,439	2,894	44,320
Additions	-	3,824	221	4,045
Disposals	-	(442)	(6)	(448)
Exchange rate differences	10,416	256	-	10,672
Balance at 31 December 2008	**46,403**	**9,077**	**3,109**	**58,589**
Amortisation and impairment				
Balance at 1 January 2007	-	(689)	(605)	(1,294)
Acquisition of a subsidiary (Note 4)	-	(177)	-	(177)
Amortisation charge for the year	-	(716)	(38)	(754)
Disposals	-	-	-	-
Balance at 31 December 2007	**-**	**(1,582)**	**(643)**	**(2,225)**
Balance at 1 January 2008	-	(1,582)	(643)	(2,225)
Amortisation charge for the year	-	(1,423)	(294)	(1,717)
Disposals	-	59	-	59
Exchange rate differences	-	(56)	-	(56)
Balance at 31 December 2008	**-**	**(3,002)**	**(937)**	**(3,939)**
Carrying amounts				
Balance at 31 December 2006	275	2,452	1,711	4,438
Balance at 31 December 2007	35,987	3,857	2,251	42,095
Balance at 31 December 2008	46,403	6,075	2,172	54,650

The Group reviewed the goodwill on acquisition of Pozitif Menkul amounting to YTL 275 and JSC BankPozitiv amounting to YTL 46,128 for impairment through an estimation of the value in use of the cash generating unit to which the goodwill is allocated.

19. Other assets

	2008	2007
Prepaid expenses	10,795	4,654
Prepaid taxes	4,195	337
- Income taxes	*3,485*	*96*
- Other taxes	*710*	*241*
Guarantees given for derivative transactions	3,485	1,439
Asset held for resale	1,384	-
Advances given	1,027	333
Others	3,972	1,207
	24,858	**7,970**

As at 31 December 2008 and 2007, prepaid taxes of YTL 3,377 and YTL 7,713 have been offset against current taxes payable, respectively.

(Currency - In thousands of New Turkish Lira)

20. Deposits

Deposit from banks

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Demand	-	118	-	-	-	130	-	-
Total	**-**	**118**			**-**	**130**		

Deposit from customers

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Retail customers								
Demand	-	9,608	-	-	-	8,692	-	-
Time	-	4,618	-	KZT-9.64% EUR-6.69% USD-6.01%	-	5,366	-	KZT-6.19% EUR-5.73% USD-5.67%
Total	**-**	**14,226**			**-**	**14,058**		
Corporate customers								
Demand	-	51,331	-	-	-	57,332	-	-
Time	-	22,941	-	KZT-6.32% USD-2.43%	-	22,242	-	KZT-7.13% USD-4.05%
Total	**-**	**74,272**			**-**	**79,574**		
	-	**88,498**			**-**	**93,632**		

Other money market deposits

	2008				2007			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Obligations under repurchase agreements								
Due to customers	9,393	-	14.49%	-	664	-	17.33%	-
	9,393	**-**			**664**	**-**		
Clearing House of İstanbul Stock Exchange	11,890	-	15.03%		1,521	-	15.95%	
Total	**21,283**	**-**			**2,185**	**-**		

As at 31 December 2008 and 2007, other money market deposits of YTL 21,283 (2007 – YTL 2,185) have fixed interest rates.

(Currency - In thousands of New Turkish Lira)

21. Funds borrowed

	2008				2007			
	Amount[1]		Effective interest rate		Amount[1]		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Short-term								
Fixed interest	307	80,672	15.00%	USD-3.72% EUR-6.10% JPY-1.84%	2,411	37,010	17.06%	USD-6.24% EUR-6.03% JPY-1.36%
Floating interest	-	337,146		USD-3.19% EUR-5.86%	-	295,500	-	USD-5.83%
Long-term								
Fixed interest	206	490,224	14.78%	USD-7.46% EUR-6.08% JPY-1.71%	9,534	214,467	17.71%	USD-7.54% EUR-5.00% JPY-1.65%
Floating interest	-	159,175		USD-2.00% EUR-7.15%	-	101,686	-	USD-6.24% EUR-5.17%
Total	**513**	**1,067,217**			**11,945**	**648,663**		

[1] Based on original maturities.

Repayments of long term borrowing are as follows:

	2008		2007	
	Floating rate	**Fixed rate**	**Floating rate**	**Fixed rate**
2008	-	-	13,459	48,245
2009	120,593	36,740	87,308	136
2010	13,838	-	785	-
2011	17,686	-	134	-
2012	3,529	226,845	-	175,620
2013	3,529	226,845	-	-
Thereafter	-	-	-	-
Total	**159,175**	**490,430**	**101,686**	**224,001**

At 13 February 2008, the Bank paid back USD 59.25 million of the first tranche of syndicated loan amounting USD 125 million obtained on 22 February 2007.

On 20 February 2008, the Bank has received a 5 year USD 150 million loan from Commerzbank International S.A. through a loan participation note issue jointly managed by Citibank and Commerzbank under its newly established USD 1.0 billion Loan Participation Notes Medium Term Note Programme.

On 28 July 2008, the Bank has received a 1 year EUR 100 million club loan from international markets.

Floating rate borrowings bear interest at rates fixed in advance for periods of 1 to 6 months.

As at 31 December 2008 and 2007, funds borrowed are unsecured.

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

(Currency - In thousands of New Turkish Lira)

22. Other liabilities

	2008	2007
Current accounts of loan customers	74,275	60,422
Collateral received for derivative transactions	7,493	-
Taxes and funds payable	1,919	2,746
Payables due to suppliers of equipment acquired for leasing	270	1,292
Leasing payables	801	2,498
Transfer payables	614	6,544
Unearned commission income	4,965	2,731
Others	3,525	6,120
	93,862	**82,353**

As at 31 December 2008, YTL 22,474 (2007 – YTL 42,640) of YTL 74,275 (2007 – YTL 60,422) of current accounts of loan customers bears interest. The effective interest rate for current accounts of loan customers denominated in USD is 2.9% (2007 – 6.4%), in EUR 5.5% (2007 – 4.3%) and in YTL 14.2% (2007 – 16.0%). Current accounts of loan customers have fixed interest rates.

23. Provisions

	2008	2007
Employee termination benefits	117	138
Vacation pay liability	642	381
Other	1,604	7
	2,363	**526**

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

	2008	2007
At 1 January	138	125
Increase during the year	8	55
Paid	(29)	(42)
At 31 December	**117**	**138**

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 2.17 and YTL 2.03 at 31 December 2008 and 2007, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2008 and 2007, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to YTL 2.26 effective 1 January 2009.

(Currency - In thousands of New Turkish Lira)

23. Provisions *(continued)*

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

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

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

24. Capital and reserves

	2008	2007
Number of common shares, YTL 0.1 (in full YTL), par value (Authorised and issued)	3,372,923,500	2,780,973,480

Share capital and share premium

As at 31 December 2008 and 2007, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Tarshish Hapoalim Holdings and Investments Ltd.	219,240	65.00	160,045	57.55
C Faktoring A.Ş.	118,052	35.00	118,052	42.45
	337,292		**278,097**	**100.00**
Share premium	20,121		-	
Restatement effect	23,311		23,311	
	380,724		**301,408**	

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

At the extraordinary general assembly meeting held on 25 March 2008, the Bank's share capital was increased from YTL 278,097 to YTL 337,292. Based on the other shareholders' waiver of their pre-emption rights, Tarshish committed to pay YTL 59,195 nominal value and the premiums to the share capital of the Bank. The share premium amount to be paid by Tarshish for newly issued shares was YTL 20,121. Total amount of YTL 79,316 was deposited to the Bank's account on 25 March 2008. The Bank obtained all the regulatory and legal approvals related with the share capital increase and on 8 April 2008 and share capital increase was finalised. As a result of this share capital increase, Tarshish increased its ownership percentage from 57.55% to 65.00%.

(Currency - In thousands of New Turkish Lira)

24. Capital and reserves *(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.

Other reserves

Movement in other reserves are as follows:

	Available-for-sale reserve	Foreign currency translation reserve	Total
At 1 January 2007	(58)	-	(58)
Net unrealised gains/loss on investment securities	(177)	-	(177)
Foreign currency translation	-	124	124
At 31 December 2007	**(235)**	**124**	**(111)**
At 1 January 2008	(235)	124	(111)
Net unrealised gains/loss on investment securities and property	(1,348)	-	(1,348)
Foreign currency translation	-	(159)	(159)
At 31 December 2008	**(1,583)**	**(35)**	**(1,618)**

Available-for-sale reserve

This reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

Dividends

The Group did not declare or pay dividends out of the profits for 2008 as of the date of preparation of these consolidated financial statements.

(Currency - In thousands of New Turkish Lira)

25. 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 the financial and operating decisions. The Group is controlled by Bank Hapoalim and C Faktoring which owns 65.00% and 35.00% of ordinary shares, respectively (2007 – 57.55% and 42.45%, respectively). The ultimate owner of the Group is Bank Hapoalim. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring are referred to as related parties.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed, non-cash transactions, and derivative transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the year are as follows:

	Shareholders		Directors and key management personnel		Others	
	2008	2007	2008	2007	2008	2007
Loans						
Loans at 1 January	4,658	-	208	-	88	75
Loans at 31 December	-	4,658	-	208	75	88
Interest income	983	518	-	1	17	16

As at 31 December 2008 no provisions have been recognised in respect of loans given to related parties (2007 – none).

	Shareholders		Directors and key management personnel		Others	
	2008	2007	2008	2007	2008	2007
Funds borrowed						
Funds borrowed at 1 January	193,750	35,328	-	-	14,576	19,835
Funds borrowed at 31 December	144,387	193,750	-	-	27,305	14,576
Interest expense	7,794	4,074	-	-	3,086	3,426

Other balances with related parties:

Related party		**Due from banks**	**Deposits**	**Finance lease receivables**	**Other assets**	**Other liabilities**	**Non-cash loans**
Shareholders	2008	14,821	-	-	-	84	3,116
	2007	-	-	-	-	327	11,617
Others	2008	16,501	118	-	7	3,439	3
	2007	78	-	-	-	229	55
Directors and key management personnel	2008	-	88	-	-	77	-
	2007	-	-	-	-	13	-

(Currency - In thousands of New Turkish Lira)

25. Related party disclosures *(continued)*

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	2008	43	157	175	27	(83)
	2007	2,017	-	(100)	58	-
Others	2008	(27)	583	7	5	(82)
	2007	(2)	-	-	1	(85)
Directors and key	2008	-	-	-	-	-
management personnel	2007	-	-	-	-	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to YTL 4,759 (2007 – YTL 3,901) comprising salaries and other short-term benefits.

26. Commitments and contingencies

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

	2008	**2007**
Letters of guarantee	438,849	305,259
Letters of credit	106,606	77,054
Other guarantees	13,616	7,839
Total	**559,071**	**390,152**
Letter of guarantee obtained by subsidiaries from other banks	2,071	2,071
Commitments	92,363	1,076
Total non-cash loans	**653,505**	**393,299**

Operating lease commitments - Group as lessee

The Group has entered into commercial leases on head offices, branch premises and vehicles. These leases have an average life of between 1 and 5 years with renewal option and early termination clauses. There are no restrictions placed upon the lessee by entering into these leases. As at 31 December 2008, the Group has non-cancellable operating lease agreements for YTL 4,257 (2007 – YTL 2,858).

26. Commitments and contingencies *(continued)*

Litigation

There were a number of legal proceedings outstanding against the Group as at 31 December 2008 totalling YTL 268 (2007 – YTL 137). This mainly includes matters relating to claimed losses. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

Fiduciary activities

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

The Group also manages 3 open-ended investment funds (2007 – 3 open-ended investment funds) which were established under the regulations of the Capital Market Boards of Turkey. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. As at 31 December 2008, total size of investment funds is amounting to YTL 2,214 (2007 – YTL 2,268). Management fee and commission income received from investment funds amounted to YTL 34 (2007 – YTL 23).

As at 31 December 2008, the Group had investment custody accounts amounting to YTL 1,807 (2007 – YTL 4,438).

27. Financial risk management

Strategy in using financial instruments

BankPozitif's risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions. With this understanding, the Group has given priority to create a risk aware culture in which all functions of the Bank understand the risks being exposed; have well-defined areas of responsibilities; clear manual and system controls are inserted into each process and every new application/product has sufficient risk assessment before being applied and subject to regular reviews.

In the course of its normal operations, BankPozitif is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. BankPozitif's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardised credit risk management

In accordance with the BankPozitif's general risk management strategy; the Bank aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to BankPozitif. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size and most of the securities are floating rate notes.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements both in Turkey and Israel. Board of Directors follows its duties not only by itself but also through Audit Committee, which is composed of two board members and responsible for the supervision of the efficiency and adequacy of BankPozitif's internal systems, namely internal control, risk management, internal audit and compliance. The Audit Committee also oversees the proper functioning of these systems and the accounting and reporting systems and is responsible for the integrity of the information produced.

27. Financial risk management *(continued)*

All risk levels and limits are set and approved by the Board of Directors on a quarterly basis, and it is announced to the organisation.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, including that of all its subsidiaries, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Group manages its exposure to all types of risks through the Asset and Liability Committee, set by Board of Directors and comprising members of senior management, and a representative of main shareholder (Board member nominated by Bank Hapoalim) and also through limits set on the credit, treasury and asset liability management activities of the Bank. These limits are approved and quarterly reviewed by the Board of Directors and the Asset and Liability Committee is responsible to monitor and follow up these limits in daily activities.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Group does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

Credit risk

Credit Risk is the probability of loss due to inability of the obligor, borrower or counterparty to meet their obligations in a timely manner. The most important step in managing this risk is the initial decision whether or not to extend credit.

Credit risk makes up the largest part of the Bank's risk exposures having priority among the Bank's business targets and will continue to be the focus of the Bank's activities in future.

The sub risk categories being monitored under this core risk area are "default risk", "country risk" and "settlement risk".

To avoid the default risk to the best possible extend, the Bank applies a well defined "credit allocation process" and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

BankPozitif manages its corporate and retail credit portfolio as per following principles;

Creating credit risk awareness throughout the Bank

Board of Directors approve all credit policies and relevant procedures and regulations (as well as other business' policies) to be applied at the Bank, senior management is responsible for putting the policies into practise and identifying and managing of credit risk is the issue of all staff of the Bank.

The day-to-day management of credit risk is devolved to individual business units, such as the Loans and Risk Monitoring Departments of corporate and retail business, which perform regular appraisals of quantitative and qualitative information relating to counterparty credit with respect to their loan policies and procedures.

27. Financial risk management *(continued)*

Having a reliable credit allocation function

Credit approval authorities and their approval limits are also decided by Board based on a combination of “rating” and “being new/existing customers” pillars.

Credit approval processes for both retail and corporate loans are centralised, and also Retail and Corporate Loans and Risk Monitoring Departments are organised independently from the Sales & Marketing Departments. The Retail and Corporate Loans and Risk Monitoring Departments do not have any sales targets and are solely responsible for the evaluation and allocation of new loans and monitoring the performance of the loan portfolio. Loans and Risk Monitoring Departments are not included in any phase of the pricing of loans.

All the credit marketing, allocation and follow up stages are defined in Corporate Loan Policy and Retail Loan Policy, which are approved and reviewed regularly by the Board of Directors.

Within the light of “No Exception Policy” applied in the Bank, loan disbursements are checked with internal and legal regulations prior to disbursement by Internal Control Unit.

- *Risk limits*

There are risk limits, set by the board of directors, describing relevant credit limits such as single borrower limit, group exposure limit, sectoral limit, credit approval authorities and their approval limits. Risk limits are determined by comparing Israel and Turkey legislations and the most conservative limitation is taken as benchmark while determining the internal limit.

Although the Bank is not subject to local regulation in terms of single borrower limit (due to being an investment bank), the Bank set a single borrower limit, as 15% (it is lower than the regulatory requirement of 25%) of total equity. In addition to this, there is also a limit for Group of Borrowers as 25% of total equity. Risk management and Credit Departments monitors these limits on a daily basis.

Sectoral distribution of loans is monitored on a daily and monthly basis and sectoral analysis of those loans is made in accordance with their risk concentration every year. The Bank set a limit on single sector concentration by 20% of total loan book.

In addition to sectoral and borrower limits, the Bank has limits on own risk groups’ indebtedness as 10% of total equity and limits on six largest borrowers and group as 135% of total equity.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

As at 31 December 2008, the share of the Group’s receivables from its top 20 credit customers in its total loan portfolio is 38% (2007 – 36%).

27. Financial risk management *(continued)*

Measuring risk

BankPozitif also uses an in-house developed rating system for corporate loan customers. Internal rating systems are being tested regularly by selecting samples from credit portfolio. For the corporate portfolio, the existing rating system is developed internally and has ten different sets of questions for ten sectors; namely construction, energy, industry, trade, mining, factoring, health and hospital, services, transportation and tourism sectors. The rating system is designed to be in line with Basel II standards. The rating system has a dual evaluation for companies as qualitative and quantitative section and the company is rated with a rating grade between AAA – D. Rating grades like “AAA”, ”AA”, “A” and “BBB” is evaluated as “high credit worthiness” whereas ”BB”, ”B+” and “B” is evaluated as “acceptable credit worthiness”. Ratings of corporate companies are re-evaluated semi-annually by Corporate Loans and Risk Monitoring Department and also Risk Management Department has its Credit Review Function to re-evaluate the rating of the company and make recommendations at any time.

An additional rating module, loss given default (LGD or facility rating) rating, has been developed in 2008 and is being used for the corporate loan customers. This module, differently from the internal rating module explained above, rates the transaction instead of the corporate customer and reflects the expected loss amount in case of a default by taking into account collateral types which are subject to coefficients.

Both of the rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity.

Regarding to retail business, application scorecards developed by Experian Scorex is being used to evaluate retail customers and a project on developing behavioural scorecards for each customer is being carried out.

Monitoring the risk

Risk Management Department performs periodic reviews on the credit portfolio of the bank as if they are acting as a credit unit and performs all credit pre-approval process, (called Credit Review Function). They re-evaluate the selected credit file and conclude in a credit rating according to the internal rating scale.

Risk Management Department controls structure of portfolio by product type, maturity, sector, geographical concentration, rating, currency, collateral and borrower/group of borrowers. Risk Management Department also monitors concentration in the portfolio with these criteria, makes recommendations and reports its findings at appropriate managerial levels. Additionally, risk management calculates sectoral diversification of the loan portfolio in accordance with Herfindahl-Herschman.

Bank’s credit portfolio, either retail or corporate, is monitored through several analysis and stress tests by predetermined scenarios to measure profit or loss and results are reported at appropriate managerial levels.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Segment information for cash loans, finance lease receivables and non-cash loans is as follows:

	2008			
	Cash	**Finance lease receivables**	**Non-cash**	**Total**
Tourism and entertainment	254,735	6,437	30,526	291,698
Electric production & supply	50,066	-	126,134	176,200
Metal and by-products	101,350	2,022	32,822	136,194
Transportation	13,769	508	115,641	129,918
Building contractor (general and special trade)	93,780	-	25,998	119,778
Public works & civil engineering	42,212	2,061	56,109	100,382
Other commercial services	48,576	209	38,323	87,108
Trade	58,515	-	25,888	84,403
Commercial, mortgage, investment finance banks	-	-	63,255[(1)]	63,255
Electrical & electronic equipment	28,213	-	20,363	48,576
Manufacture of transport equipments	17,861	-	25,055	42,916
Non ferrous mineral products	29,220	5,411	4,628	39,259
Food & beverage & tobacco industries	18,536	132	14,141	32,809
Holding companies	30,874	-	1,324	32,198
Chemical and oil products	2,655	-	23,032	25,687
Other financial institutions	13,577	-	7,053	20,630
Agriculture & forestry	1,304	-	17,569	18,873
Health service	18,653	-	-	18,653
Personal other services	11,345	424	5,754	17,523
Machinery & equipment	514	-	16,016	16,530
Textile & clothing	13,299	-	2,797	16,096
Mining & quarrying	13,343	-	-	13,343
Rubber & plastic products	2,605	-	-	2,605
Others	3,106	1,976	1,077	6,159
Corporate loans	**868,108**	**19,180**	**653,505**	**1,540,793**
Consumer and staff loans	272,141	-	-	272,141
Interest accruals	20,442	334	-	20,776
Loans in arrears	21,300	-	-	21,300
Provision for possible loan losses	(25,050)	-	-	(25,050)
Total loans	**1,156,941**	**19,514**	**653,505**	**1,829,960**

(1) YTL 40,090 and YTL 3,064 of this non-cash exposure has been counter-guaranteed by the Export Import Bank of Korea and Bank Hapoalim, respectively.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

	2007			
	Cash	Finance lease receivables	Non-cash	Total
Metal and by-products	74,461	4,989	41,650	121,100
Tourism and entertainment	93,462	6,444	12,990	112,896
Public works and civil engineering	33,771	4,169	70,179	108,119
Other financial institutions	71,249	-	3,205	74,454
Building contractor	37,563	-	25,615	63,178
Trade	40,833	168	21,557	62,558
Transportation	13,589	1,734	39,431	54,754
Electric production and supply	6,119	-	46,580	52,699
Textile and clothing	33,769	1,320	4,340	39,429
Other commercial services	28,676	546	7,179	36,401
Manufacture of transport equipments	19,562	75	16,106	35,743
Commercial, mortgage, investment finance banks	-	-	34,935[(1)]	34,935
Non ferrous mineral products	21,692	7,008	4,823	33,523
Electrical and electronic equipment	7,103	682	19,869	27,654
Machinery and equipment	590	-	22,195	22,785
Other personal services	13,358	-	4,581	17,939
Chemical and oil products	9,006	-	8,064	17,070
Food, beverage and tobacco industries	12,178	687	2,974	15,839
Health service	13,604	1,878	106	15,588
Mining and quarrying	11,835	146	-	11,981
Rubber and plastic products	7,256	-	2,890	10,146
Holding companies	-	-	1,474	1,474
Agriculture & forestry	354	-	10	364
Others	16,720	2,286	2,546	21,552
Corporate loans	**566,750**	**32,132**	**393,299**	**992,181**
Consumer and staff loans	192,209	-	-	192,209
Interest accruals	9,773	513	-	10,286
Loans in arrears	5,924	-	-	5,924
Provision for possible loan losses	(9,918)	-	-	(9,918)
Total loans	**764,738**	**32,645**	**393,299**	**1,190,682**

(1) YTL 18,474 and YTL 11,546 of this non-cash exposure has been counter-guaranteed by the Export Import Bank of Korea and Bank Hapoalim, respectively.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Total collateralisation coverage of cash and non cash loans are 84% as at 31 December 2008 (2007 – 90%).

The following table sets out the collateralisation of Bank's cash and non-cash loan portfolio, including finance lease receivables;

	2008	2007
Cash loans[(1)]		
Secured by cash	3,869	9,740
Secured by mortgages	857,787	430,556
Secured by pledge	97,686	125,421
Secured by guarantee	66,000	87,453
Secured by assignment and cheques	74,583	110,093
Unsecured	101,580	44,038
Total	**1,201,505**	**807,301**
Non-cash loans[(1)]		
Secured by cash	25,941	10,936
Secured by mortgages	149,009	86,516
Secured by pledge	9,165	3,015
Secured by guarantee	260,844	208,254
Secured by assignment and cheques	18,347	12,703
Unsecured	190,199	71,875
Total	**653,505**	**393,299**

[(1)] Total risk amount is taken into consideration where collateral value exceeds the risk amount.

Liquidity risk

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

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments. There are risk limits set for liquidity risks as; ratio of total assets maturing within 1 month to total liabilities maturing within 1 month can not be lower than 100%. (It is set as 80% for foreign currency assets to liabilities). Asset and Liability Committee closely monitors daily, weekly and monthly liquidity position of the bank and has the authority to take actions where necessary.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk Management and Treasury Departments monitor daily liquidity gaps in all currencies.

Since the Bank has funding centred asset creating structure, the Bank is not allowed to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the top management of the Bank.

Generally, the Bank does not prefer to utilise liquidity from Interbank money markets and is in a net lender position in Interbank money markets.

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

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Liquidity risk *(continued)*

2008	On demand[1]	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Unallocated	Total
Assets												
Cash and balances with central banks	44,980	-	-	-	-	-	-	-	-	-	-	44,980
Due from banks and financial institutions	40,259	3,541	439	212	32,581	-	53	-	-	-	-	77,085
Interbank and other money market placements	149,050	-	-	-	-	-	-	-	-	-	-	149,050
Reserve deposits at central banks	2,344	100,603	-	-	-	-	-	-	-	-	-	102,947
Trading assets	-	1,515	866	251	72	146	112	7,895	3,323	-	-	14,180
Investment securities	-	298	4,965	205	-	13,579	1,371	34,902	3,492	21,255	227	80,294
Loaned securities	-	10,798	-	-	-	-	-	-	-	-	-	10,798
Receivables from customers due to brokerage activities	-	193	-	-	-	-	-	-	-	-	-	193
Loans and advances to customers	-	55,867	169,675	143,970	117,865	204,573	166,113	103,149	61,513	122,034	12,182	1,156,941
Finance lease receivables	-	1,549	2,052	2,493	4,299	4,491	3,798	832	-	-	-	19,514
Property and equipment	-	-	-	-	-	-	-	-	-	-	18,628	18,628
Intangible assets	-	-	-	-	-	-	-	-	-	-	54,650	54,650
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	774	774
Other assets	-	6,439	1,724	258	517	1,033	1,033	1,033	651	-	12,170	24,858
Total assets	**236,633**	**180,803**	**179,721**	**147,389**	**155,334**	**223,822**	**172,480**	**147,811**	**68,979**	**143,289**	**98,631**	**1,754,892**
Liabilities												
Deposit from other banks[2]	118	-	-	-	-	-	-	-	-	-	-	118
Customer deposits[2]	60,939	14,419	1,321	4,909	5,653	1,225	25	7	-	-	-	88,498
Other money market deposits	21,283	-	-	-	-	-	-	-	-	-	-	21,283
Trading liabilities	-	1,200	5,392	2,179	1,423	-	-	-	-	-	-	10,194
Funds borrowed	-	128,734	150,157	51,130	245,437	13,838	17,686	230,374	230,374	-	-	1,067,730
Other liabilities	51,801	29,735	6,189	742	429	-	-	-	-	-	4,966	93,862
Provisions	-	1,604	-	-	-	-	-	-	-	-	759	2,363
Current tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	3,680	3,680
Total liabilities	**134,141**	**175,692**	**163,059**	**58,960**	**252,942**	**15,063**	**17,711**	**230,381**	**230,374**	**-**	**9,405**	**1,287,728**
Net liquidity gap	**102,492**	**5,111**	**16,662**	**88,429**	**(97,608)**	**208,759**	**154,769**	**(82,570)**	**(161,395)**	**143,289**	**89,226**	

[1] Includes overnight balances.
[2] Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Liquidity risk *(continued)*

2007	On demand[1]	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Unallocated	Total
Assets												
Cash and balances with central banks	12,740	-	-	-	-	-	-	-	-	-	-	12,740
Due from banks and financial institutions	78,012	9,372	-	-	914	37	-	-	-	-	-	88,335
Interbank and other money market placements	-	29,467	-	-	-	-	-	-	-	-	-	29,467
Reserve deposits at central banks	5,889	73,719	-	-	-	-	-	-	-	-	-	79,608
Trading assets	-	687	2,016	19	-	-	-	-	-	-	396	3,118
Investment securities	-	6,156	5,904	-	21,042	-	21,271	20,847	26,505	15,036	76	116,837
Loaned securities	-	664	-	-	-	-	-	-	-	-	-	664
Receivables from customers due to brokerage activities	-	7,528	-	-	-	-	-	-	-	-	-	7,528
Loans and advances to customers	-	103,873	92,412	44,104	101,270	168,845	91,689	78,091	39,626	41,009	3,819	764,738
Finance lease receivables	-	3,623	2,827	3,970	6,485	8,891	3,523	2,709	617	-	-	32,645
Property and equipment	-	-	-	-	-	-	-	-	-	-	16,837	16,837
Intangible assets	-	-	-	-	-	-	-	-	-	-	42,095	42,095
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	2,907	2,907
Other assets	-	2,702	988	-	-	-	-	-	-	-	4,280	7,970
Total assets	**96,641**	**237,791**	**104,147**	**48,093**	**129,711**	**177,773**	**116,483**	**101,647**	**66,748**	**56,045**	**70,410**	**1,205,489**
Liabilities												
Deposit from other banks[2]	130	-	-	-	-	-	-	-	-	-	-	130
Customer deposits[2]	66,024	7,608	2,135	1,884	2,759	13,194	28	-	-	-	-	93,632
Other money market deposits	-	2,185	-	-	-	-	-	-	-	-	-	2,185
Trading liabilities	-	688	314	1,430	897	256	-	-	2,369	-	-	5,954
Funds borrowed	-	77,004	93,362	33,786	192,473	87,444	785	134	175,620	-	-	660,608
Other liabilities	17,782	49,730	1,034	9,250	1,195	631	-	-	-	-	2,731	82,353
Provisions	-	-	-	-	-	-	-	-	-	-	526	526
Current tax liabilities	-	-	1,775	-	-	-	-	-	-	-	-	1,775
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	89	89
Total liabilities	**83,936**	**137,215**	**98,620**	**46,350**	**197,324**	**101,525**	**813**	**134**	**177,989**	**-**	**3,346**	**847,252**
Net liquidity gap	**12,705**	**100,576**	**5,527**	**1,743**	**(67,613)**	**76,248**	**115,670**	**101,513**	**(111,241)**	**56,045**	**67,064**	

[1] Includes overnight balances.

[2] Figures represent the foreign subsidiary's deposit balances

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

The table below analyses residual contractual maturities of liabilities:

2008	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Deposit from other banks	118	118	118	-	-	-	-	-
Customer deposits	88,498	98,398	60,939	23,827	1,327	10,886	1,419	-
Interbank and other money market deposits	21,283	21,300	-	21,300	-	-	-	-
Funds borrowed	1,067,730	1,219,520	-	129,481	152,452	336,960	600,627	-
Current account of loan customers[1]	74,275	74,388	51,801	15,815	5,923	849	-	-
	1,251,904	**1,413,724**	**112,858**	**190,423**	**159,702**	**348,695**	**602,046**	**-**

[1] Included in other liabilities.

2007	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Deposit from other banks	130	130	130	-	-	-	-	-
Customer deposits	93,632	93,929	66,024	7,614	2,144	4,727	13,420	-
Interbank and other money market deposits	2,185	2,186	-	2,186	-	-	-	-
Funds borrowed	660,608	742,577	-	77,474	97,013	252,621	315,469	-
Current account of loan customers[1]	60,422	61,682	17,782	33,829	1,276	8,795	-	-
	816,977	**900,504**	**83,936**	**121,103**	**100,433**	**266,143**	**328,889**	**-**

[1] Included in other liabilities.

The table below analyses contractual maturities of derivative transactions;

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
2008							
Forward purchase contract	3,449	-	-	-	-	-	3,449
Forward sale contract	3,421	-	-	-	-	-	3,421
Currency swap purchase	22,909	3,879	7,681	4,697	78,638	-	117,804
Currency swap sale	22,867	3,211	8,135	4,633	66,789	-	105,635
Future purchase contract	-	60,068	-	-	-	-	60,068
Future sales contract	-	65,464	-	-	-	-	65,464
Option purchase contract	-	-	-	-	60,492	-	60,492
Option sale contract	-	-	-	-	59,894	-	59,894
Option interest rate purchase contract	-	-	-	-	120,984	-	120,984
	52,646	**132,622**	**15,816**	**9,330**	**386,797**	**-**	**597,211**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
2007							
Forward purchase contract	15,906	1,459	-	-	-	-	17,365
Forward sale contract	15,633	1,444	-	-	-	-	17,077
Currency swap purchase	41,902	27,280		2,736	39,807		111,725
Currency swap sale	41,945	28,205	-	2,886	42,279	-	115,315
Future purchase contract	-	124,781	-	-	-	-	124,781
Future sales contract	-	122,859	-	-	-	-	122,859
Option purchase contract	-	-	-	-	29,270	-	29,270
Option sale contract	-	-	-	-	29,063	-	29,063
Option interest rate purchase contract	-	-	1,639	-	93,664	-	95,303
	115,386	**306,028**	**1,639**	**5,622**	**234,083**	**-**	**662,758**

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Market risk

The Group takes no exposure to market risks. Market risks arise from open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to Value at Risk (VAR) is taken into consideration by the standard method. As at 31 December 2008, the highest potential loss of the securities portfolio was generated by historical simulation method as YTL 56 for one day.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and quarterly revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk. The Group manages foreign currency risk by weekly Asset and Liability Committee meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

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

	USD	Euro	CHF	JPY	KZT	Others	Total
2008							
Assets							
Cash and balances with central banks	20,734	281	-	-	23,852	66	44,933
Due from banks and financial institutions	46,187	30,229	77	85	7	156	76,741
Interbank and other money market placements	-	-	-	-	-	-	-
Reserve deposits at central Banks	99,414	-	-	-	2,344	-	101,758
Trading assets	419	-	-	-	-	-	419
Investment securities	6,054	-	-	-	28	-	6,082
Loans and advances due to customers[1]	397,056	296,429	50,429	11,514	79,322	125	834,875
Finance lease receivables	1,904	16,926	-	-	684	-	19,514
Property and equipment	-	-	-	-	7,599	-	7,599
Intangible assets	46,128	-	-	-	1,513	-	47,641
Deferred tax asset	-	-	-	-	390	-	390
Other assets	7,671	91	17	-	9,270	416	17,465
Total assets	**625,567**	**343,956**	**50,523**	**11,599**	**125,009**	**763**	**1,157,417**
Liabilities							
Deposit from other banks[2]	63	1	-	-	45	9	118
Customer deposits[2]	22,466	511	-	-	65,457	64	88,498
Funds borrowed	783,126	269,157	-	14,934	-	-	1,067,217
Other liabilities	30,124	28,806	65	98	435	1	59,529
Provisions	-	-	-	-	252	-	252
Deferred tax liabilities	-	-	-	-	-	-	-
Total liabilities	**835,779**	**298,475**	**65**	**15,032**	**66,189**	**74**	**1,215,614**
Gross exposure	**(210,212)**	**45,481**	**50,458**	**(3,433)**	**58,820**	**689**	**(58,197)**
Off-balance sheet position	149,691	(45,342)	(50,414)	3,403	-	(493)	56,845
Net notional amount of derivatives	149,691	(45,342)	(50,414)	3,403	-	(493)	56,845
Net exposure[3]	**(60,521)**	**139**	**44**	**(30)**	**58,820**	**196**	**(1,352)**

(1) Foreign currency net non-performing loan amounting YTL 1,902 is included at foreign currency position.

(2) Figures represent the foreign subsidiary's deposit balances.

(3) The Bank has a USD-KZT currency option agreement amounting to USD 40 million in order to hedge its short position in USD and long position in KZT.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Currency risk *(continued)*

	USD	Euro	CHF	JPY	KZT	Others	Total
2007							
Assets							
Cash and balances with central banks	860	269	13	-	11,533	16	12,691
Due from banks and financial institutions	71,060	650	32	102	2,925	302	75,071
Interbank and other money market placements	-	-	-	-	24,347	-	24,347
Reserve deposits at central Banks	73,250	-	-	-	5,888	-	79,138
Investment securities	5,291	-	-	-	4,876	-	10,167
Loans and advances due to customers[(1)]	211,843	160,378	30,337	4,941	47,393	-	454,892
Finance lease receivables	8,280	23,995	-	-	171	-	32,446
Property and equipment	-	-	-	-	4,688	-	4,688
Intangible assets	35,712	-	-	-	682	-	36,394
Other assets	5,460	537	-	-	1,208	248	7,453
Total assets	**411,756**	**185,829**	**30,382**	**5,043**	**103,711**	**566**	**737,287**
Liabilities							
Deposit from other banks[(2)]	19	11	-	-	100	-	130
Customer deposits[(2)]	39,782	360	-	-	52,947	543	93,632
Funds borrowed	592,944	48,642	-	7,077	-	-	648,663
Other liabilities	32,998	16,520	315	15	775	120	50,743
Provisions	-	-	-	-	9	-	9
Deferred tax liabilities	-	-	-	-	46	-	46
Total liabilities	**665,743**	**65,533**	**315**	**7,092**	**53,877**	**663**	**793,223**
Gross exposure	**(253,987)**	**120,296**	**30,067**	**(2,049)**	**49,834**	**(97)**	**(55,936)**
Off-balance sheet position	**206,043**	**(119,143)**	**(29,821)**	**2,105**	**-**	**(350)**	**58,834**
Net notional amount of derivatives	206,043	(119,143)	(29,821)	2,105	-	(350)	58,834
Net exposure[(3)]	**(47,944)**	**1,153**	**246**	**56**	**49,834**	**(447)**	**2,898**

(1) Foreign currency net non-performing loan amounting YTL 742 is included from foreign currency position.

(2) Figures represent the foreign subsidiary's deposit balances.

(3) The Bank has a USD-KZT currency option agreement amounting to USD 40 million in order to hedge its short position in USD and long position in KZT.

The following significant exchange rates applied during the year:

	Average rate		Reporting rate	
	2008	2007	2008	2007
USD/YTL	1.2970	1.3006	1.5123	1.1708
EUR/YTL	1.8973	1.7775	2.1408	1.6976

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

Currency risk *(continued)*

Sensitivity analysis

A 10 percent weakening of YTL against the foreign currencies at 31 December 2008 and 31 December 2007 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

31 December 2008	Equity	Profit or loss
USD	(6,052)	(6,052)
Euro	14	14
Other currencies	5,903	5,903
	(135)	**(135)**

31 December 2007	Equity	Profit or loss
USD	(4,794)	(4,794)
Euro	115	115
Other currencies	4,969	4,969
	290	**290**

A 10 percent strengthening of the YTL against the foreign currencies at 31 December 2008 and 31 December 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

The Group funds its YTL assets through its shareholders' equity and is not exposed to interest rate risk in YTL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period. The Bank prefers to protect itself from the effects created by the interest rate volatility and prefers to have a match in interest rate risk. Also the Bank does not prefer to generate income from interest rate mismatch.

Interest rate sensitivity of the Bank is measured and monitored by duration analysis and PV01 analysis by Risk Management and Financial Planning and Control Departments accompanied by an interest sensitive gap representation to illustrate the negative and positive amounts of relevant time buckets.

The Group manages interest rate risk by the Asset and Liability Committee and Executive Risk Committee, comprising members of senior management of the Bank, and through utilising interest rate floor agreement, interest rate swaps and setting limits on the positions, which can be taken by the Bank's credit and treasury divisions.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

The Group manages interest rate risk by the Asset and Liability Committee and Risk Management Committee, comprising members of senior management of the Bank, and through utilising interest rate floor agreement, interest rate swaps and setting limits on the positions, which can be taken by the Bank's credit and treasury divisions. The table below summarises the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the reprising date:

2008	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	44,980	44,980
Due from banks and financial institutions	46,305	14,821	-	-	-	-	-	-	-	15,959	77,085
Interbank and other money market placements	149,050	-	-	-	-	-	-	-	-	-	149,050
Reserve deposits at central banks	100,603	-	-	-	-	-	-	-	-	2,344	102,947
Trading assets	1,515	866	251	72	146	112	7,895	3,323	-	-	14,180
Investment securities	52	70,743	3,512	-	-	-	5,760	-	-	227	80,294
Loaned securities	10,798	-	-	-	-	-	-	-	-	-	10,798
Receivables from customers due to brokerage activities	193	-	-	-	-	-	-	-	-	-	193
Loans and advances to customers	303,691	215,935	142,168	79,698	113,179	80,490	59,004	43,885	106,709	12,182	1,156,941
Finance lease receivables	3,018	11,987	2,521	538	798	599	53	-	-	-	19,514
Property and equipment	-	-	-	-	-	-	-	-	-	18,628	18,628
Intangible assets	-	-	-	-	-	-	-	-	-	54,650	54,650
Deferred tax assets	-	-	-	-	-	-	-	-	-	774	774
Other assets	-	749	-	-	-	-	-	-	-	24,109	24,858
Total assets	**615,225**	**315,101**	**148,452**	**80,308**	**114,123**	**81,201**	**72,712**	**47,208**	**106,709**	**173,853**	**1,754,892**
Liabilities											
Deposit from other banks[(1)]	-	-	-	-	-	-	-	-	-	118	118
Customer deposits[(1)]	14,419	1,321	4,909	5,653	1,225	25	7	-	-	60,939	88,498
Other money market deposits	21,283	-	-	-	-	-	-	-	-	-	21,283
Trading liabilities	1,200	5,392	2,179	1,423	-	-	-	-	-	-	10,194
Funds borrowed	499,764	74,297	15,403	24,576	-	-	226,845	226,845	-	-	1,067,730
Other liabilities	21,739	6,114	742	429	-	-	-	-	-	64,838	93,862
Provisions	-	-	-	-	-	-	-	-	-	2,363	2,363
Current tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	3,680	3,680
Total liabilities	**558,405**	**87,124**	**23,233**	**32,081**	**1,225**	**25**	**226,852**	**226,845**		**131,938**	**1,287,728**
Balance sheet interest sensitivity gap	**56,820**	**227,977**	**125,219**	**48,227**	**112,898**	**81,176**	**(154,140)**	**(179,637)**	**106,709**	**41,915**	

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

2007	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	12,740	12,740
Due from banks and financial institutions	9,372	-	-	914	37	-	-	-	-	78,012	88,335
Interbank and other money market placements	29,467	-	-	-	-	-	-	-	-	-	29,467
Reserve deposits at central banks	73,719	-	-	-	-	-	-	-	-	5,889	79,608
Trading assets	687	2,016	19	-	-	-	-	-	-	396	3,118
Investment securities	38,370	72,995	-	-	105	-	-	5,291	-	76	116,837
Loaned securities	664	-	-	-	-	-	-	-	-	-	664
Receivables from customers due to brokerage activities	7,528	-	-	-	-	-	-	-	-	-	7,528
Loans and advances to customers	184,350	213,514	103,093	68,999	83,676	36,831	27,395	15,760	27,301	3,819	764,738
Finance lease receivables	2,230	12,802	4,842	4,101	1,821	3,523	2,709	617	-	-	32,645
Property and equipment	-	-	-	-	-	-	-	-	-	16,837	16,837
Intangible assets	-	-	-	-	-	-	-	-	-	42,095	42,095
Deferred tax assets	-	-	-	-	-	-	-	-	-	2,907	2,907
Other assets	-	-	-	-	-	-	-	-	-	7,970	7,970
Total assets	**346,387**	**301,327**	**107,954**	**74,014**	**85,639**	**40,354**	**30,104**	**21,668**	**27,301**	**170,741**	**1,205,489**
Liabilities											
Deposit from other banks[1]	-	-	-	-	-	-	-	-	-	130	130
Customer deposits[1]	7,608	2,135	1,884	2,759	13,194	28	-	-	-	66,024	93,632
Other money market deposits	2,185	-	-	-	-	-	-	-	-	-	2,185
Trading liabilities	688	314	1,430	897	256	-	-	2,369	-	-	5,954
Funds borrowed	90,034	288,617	79,292	27,045	-	-	-	175,620	-	-	660,608
Other liabilities	34,094	1,034	9,250	1,195	631	-	-	-	-	36,149	82,353
Provisions	-	-	-	-	-	-	-	-	-	526	526
Current tax liabilities	-	-	-	-	-	-	-	-	-	1,775	1,775
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	89	89
Total liabilities	**134,609**	**292,100**	**91,856**	**31,896**	**14,081**	**28**	**-**	**177,989**	**-**	**104,693**	**847,252**
Balance sheet interest sensitivity gap	**211,778**	**9,227**	**16,098**	**42,118**	**71,558**	**40,326**	**30,104**	**(156,321)**	**27,301**	**66,048**	

[1] Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of New Turkish Lira)

27. Financial risk management *(continued)*

The Bank's value at market risks as of 31 December 2008 and 2007 calculated as per the statutory 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:

	2008			2007		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	2,000	2,426	1,326	1,078	1,920	199
Common share risk	-	-	-	-	-	-
Currency risk	656	2,181	135	259	454	42
Total value-at-risk	**2,656**	**4,607**	**1,461**	**1,337**	**2,374**	**241**

Exposure to interest rate risk – non-trading portfolios

The balance sheet interest rate risk is monitored with methods such as static duration gap and sensitivity analyses based on all interest rate sensitive assets and liabilities. Effect of 1% increase in the interest rates would have positive effect of 0.55% to the total equity; whereas effect of 1% decrease in the interest rates has positive effect of 0.29% to the total equity.

In accordance with the PV01 analysis; effect of 1% decrease in the interest rates would have negative effect of 0.22% to the total equity.

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Regulatory capital and the capital adequacy ratio declared by the Bank as 31 December 2008 and 2007 are as follows;

	2008	**2007**
Amount subject to credit risk (I)	1,324,001	795,555
Amount subject to market risk (II)	31,788	27,313
Amount subject to operational risk (III)	74,038	52,150
Total Risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**1,429,827**	**875,018**
Shareholder's equity	463,898	346,329
Tier 1 capital	469,023	356,192
Tier 2 capital	-	-
Deductions from capital	(5,125)	(9,863)
Total regulatory capital	**463,898**	**346,329**
Capital adequacy ratio	**32.44%**	**39.58%**
Tier-1 ratio	**32.80%**	**40.71%**

(Currency - In thousands of New Turkish Lira)

28. Fair value of financial instruments

Fair values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount		Fair value	
	2008	**2007**	**2008**	**2007**
Financial assets				
Cash and balances with central banks	44,980	12,740	44,980	12,740
Due from banks and financial institutions	77,085	88,335	77,085	88,335
Interbank and other money market placements	149,050	29,467	149,050	29,467
Reserve deposits at central banks	102,947	79,608	102,947	79,608
Trading assets	14,180	3,118	14,180	3,118
Investment securities – AFS portfolio	44,073	116,837	44,073	116,837
Investment securities – HTM portfolio	36,221	-	31,987	-
Loaned securities – AFS portfolio	10,798	664	10,798	664
Loaned securities – HTM portfolio	-	-	-	-
Receivables from customers due to brokerage activities	193	7,528	207	7,591
Loans and advances to customers	1,156,941	764,738	1,246,230	771,174
Finance lease receivables	19,514	32,645	19,467	32,564
	1,655,982	**1,135,680**	**1,741,004**	**1,142,098**
Financial liabilities				
Deposits from other banks	118	130	118	130
Customer deposits	88,498	93,632	88,813	93,635
Other money market deposits	21,283	2,185	21,269	2,185
Trading liabilities	10,194	5,954	10,194	5,954
Funds borrowed	1,067,730	660,608	1,075,345	660,149
Current accounts of loan customers(1)	74,275	60,422	73,991	60,558
	1,262,098	**822,931**	**1,269,730**	**822,611**

(1) Included in other liabilities.

Loans and advances

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

Finance lease receivables

Estimated fair value of lease contracts receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(Currency - In thousands of New Turkish Lira)

28. Fair value of financial instruments *(continued)*

Customer deposits and Current accounts of loan customers

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

Fair values of remaining financial assets and liabilities carried at cost, including cash and balances with central banks, due from banks and financial institutions, interbank and other money market placements, receivables from customers due to brokerage activities, reserve deposits at central banks, other money market deposits and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

29. Rating

As at 31 December 2008, the Bank's ratings assigned by international rating agencies, Fitch Ratings and Moody's Ratings are as follows;

Fitch Ratings, April 2008

Long Term Foreign Currency IDR	BB (Stable)
Short Term Foreign Currency IDR	B
Individual Rating	D
Support	3
Long Term Local Currency IDR	BBB- (Stable)
Short Term Local Currency	F3
National	AAA (TUR) (Stable)

Moody's Ratings, April 2008

Long Term Foreign Currency	B1 (Stable)
Short Term Foreign Currency	NP
Financial Strength Rating	D
Long Term Local Currency	Baa3 (Stable)
Short Term Local Currency	P-3

30. Subsequent event

Republic of Turkey Ministry of Finance promulgated 15th sequence numbered "Accounting System Application General Announcement" in numbered 27092 Official Gazette on 26 December 2008. The accounting records and transactions until 31 December 2008 are recorded in New Turkish Lira ("YTL") and New Kuruş in accordance with the principles as regards usage of Turkish Lira and Kuruş by Private Investments' Accounting System. The accounts and the statutory financial statements will be recorded and converted in Turkish Lira ("TL") as from 1 January 2009.