TÜRKİYE
HALK BANKASI A.Ş.
AND ITS SUBSIDIARIES

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2008

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Türkiye Halk Bankası A.Ş.
Ankara, Turkey

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte.

Opinion

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2008 and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**

Ankara, June 24, 2009

INDEX

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2008

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Notes	December 31, 2008	December 31, 2007
ASSETS			
Cash and cash equivalents	4	2,309,963	1,442,092
Balances with Central Bank	5	2,797,332	3,241,669
Money market placements		425	-
Financial assets at fair value through profit and loss	6	47,901	485,763
Derivative financial instruments	16	79,182	6,777
Loans and advances to customers	7	25,504,959	17,933,465
Loans and advances to financial institutions	7	420,658	265,872
Insurance premium receivables		39,805	36,383
Investment securities:			
- Available-for-sale	6	2,468,889	8,538,654
- Held-to-maturity	6	15,863,664	7,037,420
Investment in associates	8	170,501	144,218
Premises and equipment	9	942,482	676,969
Intangible assets		6,387	2,168
Deferred tax asset	15	49,755	48,137
Non-current assets held for sale		132,463	92,086
Other assets	10	346,703	327,109
Total assets		**51,181,069**	**40,278,782**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	11	38,926,598	29,771,603
Deposits from banks	11	1,264,682	1,049,049
Obligations under repurchase agreements		2,390,444	1,700,455
Derivative financial instruments	16	22,246	97,087
Funds borrowed	12	2,737,353	1,979,364
Insurance payables		4,651	1,854
Other liabilities and provisions	13	1,104,336	1,019,400
Insurance technical reserves	14	117,164	95,136
Income taxes payable	15	22,393	81,965
Total liabilities		**46,589,867**	**35,795,913**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	17	2,578,184	2,578,184
Unrealized gains/(losses) on available-for-sale investments, net of tax		(111,812)	45,971
Currency translation reserve		(14,443)	(36,246)
Hedging funds		(18,533)	-
Retained earnings	18	2,150,862	1,889,206
Minority interest		6,944	5,754
Total equity		**4,591,202**	**4,482,869**
Total liabilities and equity		**51,181,069**	**40,278,782**

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Notes	01.01.2008 - 31.12.2008	01.01.2007 - 31.12.2007
Interest income			
Interest on loans and advances		3,773,463	2,651,090
Interest on securities		2,796,616	2,826,906
Interest on deposits with banks and other financial institutions		219,640	227,056
Interest on other money market placements		9,643	11,699
Other interest income		10,284	6,641
Total interest income		**6,809,646**	**5,723,392**
Interest expense			
Interest on customer deposits		(4,329,495)	(3,696,244)
Interest on other money market deposits		(224,232)	(160,478)
Interest on funds borrowed and deposits from other banks		(73,248)	(72,898)
Other interest expense		(35,627)	(25,850)
Total interest expense		**(4,662,602)**	**(3,955,470)**
Net interest income		**2,147,044**	**1,767,922**
Fees and commissions and other operating income			
Fees and commissions income	23	441,561	342,609
Fees and commissions expenses	23	(72,398)	(51,523)
Net fees and commissions income		**369,163**	**291,086**
Income from insurance operations		155,282	133,577
Foreign exchange gain / (loss)		(706,304)	4,095
Gains/(losses) on securities		514,032	(43,820)
Other income	21	140,574	253,761
Cost of insurance operations		(90,652)	(98,417)
Operating expenses	22	(1,146,604)	(903,828)
(Provisions for) / recoveries from impairment of loan receivables		33,151	(67,350)
Operating profit		**1,415,686**	**1,337,026**
Income from associates		20,828	18,504
Profit before income tax		**1,436,514**	**1,355,530**
Taxation	15	(263,535)	(257,121)
Net profit for the year		**1,172,979**	**1,098,409**
Attributable to:			
Equity holders of the parent		1,171,537	1,097,252
Minority interest		1,442	1,157
Earnings per share (full TRY)	19	**0.00082**	**0.00079**

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Share capital	Adjustment to share capital	Unrealized gains/(losses) on available-for-sale investments	Currency translation differences	Retained earnings	Hedging funds (effective part)	Total	Minority interest	Total equity
At December 31, 2006	1,250,000	1,328,184	7,253	(26,127)	1,543,345	-	4,102,655	4,578	4,107,233
Currency translation differences	-	-	-	(10,119)	-	-	(10,119)	-	(10,119)
Net change in unrealized gain on available-for-sale investments	-	-	38,718	-	-	-	38,718	44	38,762
Total income and expense for the year recognized directly in equity	-	-	38,718	(10,119)	-	-	28,599	44	28,643
Net profit for the year	-	-	-	-	1,097,252	-	1,097,252	1,157	1,098,409
Total income / expense for the year	-	-	-	-	1,097,252	-	1,097,252	1,157	1,098,409
Dividends paid	-	-	-	-	(751,428)	-	(751,428)	(34)	(751,462)
Capital increase	-	-	-	-	-		-	46	46
Acquisition of subsidiaries	-	-	-	-	37	-	37	(37)	-
At December 31, 2007	1,250,000	1,328,184	45,971	(36,246)	1,889,206	-	4,477,115	5,754	4,482,869
Currency translation differences	-	-	-	21,803	-	-	21,803	-	21,803
Net change in unrealized gain on available-for-sale investments	-	-	(157,783)	-	-	-	(157,783)	(23)	(157,806)
Total income and expense for the year recognized directly in equity	-	-	(157,783)	21,803	-	-	(135,980)	(23)	(136,003)
Net profit for the year	-	-	-	-	1,171,537	-	1,171,537	1,442	1,172,979
Total income / expense for the year	-	-	-	-	1,171,537	-	1,171,537	1,442	1,172,979
Dividends paid	-	-	-	-	(875,780)	-	(875,780)	(83)	(875,863)
Capital increase	-	-	-	-	-	-	-	(22)	(22)
Other	-	-	-	-	124	-	124	(124)	-
Hedges for investments made in foreign countries	-	-	-	-	(34,225)	(18,533)	(52,758)	-	(52,758)
At December 31, 2008	1,250,000	1,328,184	(111,812)	(14,443)	2,150,862	(18,533)	4,584,258	6,944	4,591,202

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Notes	01.01.2008 – 31.12.2008	01.01.2007 – 31.12.2007
Cash flow from operating activities			
Net profit for the year		1,171,537	1,097,252
Adjustments for:			
Depreciation and amortization	22	52,638	58,476
Provision for losses on loans and advances	7	237,495	246,896
Provision for employment termination benefits	22	46,513	28,386
Other provision expenses	22	614	5,058
Income from associates		(20,828)	(18,504)
Impairment of premises and equipment		4,630	-
(Gains) on sale of property, plant & equipment	21-22	(67,390)	(139,303)
Profit attributable to the minority interest		1,442	1,157
Add back income tax expense	15	263,535	257,121
Accrued interest, net		(308,964)	(753,844)
Operating profits before changes in operating assets/liabilities		**1,381,222**	**782,695**
Changes in operating assets and liabilities:			
Net (increase)/decrease in balances with Central Bank		449,511	(845,138)
Net (increase) in interbank money market placements		(425)	-
Net decrease in funds lent under securities resale agreements		689,989	1,023,988
Net decrease in financial assets at fair value through profit or loss, net		413,727	292,811
Net increase in loans and advances		(7,757,572)	(6,285,843)
Net (increase)/decrease in insurance receivables		(3,422)	7,172
Net (increase)/decrease in other assets		(19,839)	(353,408)
Net increase in deposits		9,274,747	3,369,896
Net increase in other creditors, taxes & liabilities		110,314	291,556
Retirement pay paid	13	(27,246)	(14,342)
Income taxes paid		(309,697)	(301,235)
Net cash provided by/(used in) operating activities		**4,201,309**	**(2,031,848)**
Cash flows from investing activities			
Purchase of premises & equipment	9	(348,020)	(139,495)
Proceeds from sale of premises & equipment	9	98,571	273,461
Proceeds from / (purchase of) available for sale investments		(2,494,985)	(1,788,088)
Proceeds from / (purchase of) investments in associates		(2,437)	7,022
Proceeds from / (purchase of) held to maturity securities		(462,344)	4,509,401
Purchase of intangible assets		(4,356)	45
Net cash used in/(provided by) investing activities		**(3,213,571)**	**2,862,346**
Cash flows from financing activities			
Proceeds from borrowed funds, net		755,789	80,706
Dividends paid	18	(875,780)	(751,428)
Other		124	37
Net cash (used in) financing activities		**(119,867)**	**(670,685)**
Net increase in cash & cash equivalents		**867,871**	**159,813**
Cash & cash equivalents at the beginning of the year	4	1,442,092	1,282,279
Cash & cash equivalents at the end of the year	4	2,309,963	1,442,092

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

1. GENERAL INFORMATION ABOUT THE BANK

General

Türkiye Halk Bankası A.Ş. ("the Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 31 December 2008, Bank operates 582 branches, including 579 domestic branches, 2 branches in Cyprus and 1 in Bahrain. In addition, it has 3 financial service branches in Germany and 1 representative branch in Iran. The operations of Türkiye Halk Bankası A.Ş. and subsidiaries ("the Group") consist of banking, securities brokerage and insurance services provided primarily to local customers. The financial statements of the Group include the accounts of Pamukbank, transferred to the Bank in November 2004, and consolidation of separate financial statements of majority owned subsidiaries, Birlik Sigorta A.Ş., Birlik Hayat Sigorta A.Ş. and Halk Yatırım Menkul Değerler A.Ş.

In 2000, the Turkish Parliament passed Statute 4603, pursuant to which state-owned banks were required to restructure its operations and prepare themselves to eventual privatization. According to the Decree number 2006/69, dated as 11 August 2006 issued by Privatization High Council, all outstanding shares of the Bank are transferred to the Privatization Administration and 99.9 % of Bank shares should be sold to general public.

The first phase of the privatization process of the Bank corresponding to 24.98% of the shares was completed in the first week of May 2007 and Halkbank shares have been traded on İstanbul Stock Exchange (ISE) as of May 10, 2007 with the base price of TRY 8.00.

In November 2004, the Bank merged with Pamukbank, another state owned bank and integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Birlik Sigorta A.Ş., a property, health and casualty insurance company, Birlik Hayat Sigorta A.Ş., a life insurance company, and Halk Yatırım Menkul Değerler A.Ş., an equity brokerage services company, from Halkbank Foundation.

The operations of the Group consist of banking, insurance and brokerage services, which are conducted mainly with local customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of Financial Statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale securities, financial assets at fair value through profit and loss and derivative financial instruments that have been measured at fair value.

The Bank and its subsidiaries are incorporated in Turkey and maintain their books of account and prepare their statutory financial statements in accordance with the requirements of accounting and tax legislation in Turkey. The foreign associates maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with IFRS, which are not recorded in the accounting books of Group's entities.

2.2 Basis of Consolidation

The consolidated financial statements include the accounts of the Bank, Pamukbank and the majority-owned subsidiaries. The accounts of Pamukbank, owned by Savings Deposit Insurance Fund ("SDIF"), an entity under common control, were merged with the operations of the Bank in 2004 and are presented as if the transfer of Pamukbank's interests in the Bank had occurred from the beginning of the earliest period presented. The assets and liabilities of Pamukbank transferred to the Group are recorded in these financial statements at the historical cost immediately prior to the merger.

Majority-owned subsidiaries where the Company has operating and financial control are consolidated. Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Companies where the Company exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Bank, using consistent accounting policies. All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of Consolidation (continued)

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

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		December 31, 2008	December 31, 2007
Birlik Sigorta A.Ş.	İstanbul	82.36 %	82.26 %
Birlik Hayat Sigorta A.Ş.	İstanbul	98.51 %	98.51 %
Halk Yatırım Menkul Değerler A.Ş.	İstanbul	99.96 %	99.96 %

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.3 Use of Estimates and Judgments

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS), requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Management do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements. The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

2.4 Functional and Presentation Currency

Functional currency of the bank and its subsidiaries, which operate in Turkey, is New Turkish Lira (TRY). The functional currency of the Bank's foreign associates is the local currency. Until December 31, 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TRY based on IAS 29, which 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 periods be restated in the same terms.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Business Combinations and Goodwill

The purchase method of accounting is used for acquired businesses. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognized at their fair values at the acquisition date. Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary or associate at the date of acquisition. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

2.6 Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. The investments in associates are carried on the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. When there is a change recognized directly in the equity of an associate, the Group recognizes its share of any changes and discloses this when applicable, in the statement of changes in equity.

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		December 31, 2008	December 31, 2007
Demirhalkbank N.V.	Rotterdam	30.00 %	30.00 %
Halk Finansal Kiralama A.Ş.	İstanbul	47.75 %	47.75 %
Kobi A.Ş.	İstanbul	32.26 %	32.26 %

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

The assets and liabilities of foreign subsidiaries, whose functional currency is the local currency, are translated into the presentation currency of the Group (TRY) at the exchange rate at the balance sheet date. Income and expense items are translated at average exchange rates for the period. On consolidation exchange differences arising from the translation of such foreign subsidiaries are included in equity.

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

2.8 Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

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

Buildings	50 years
Movables	50 years
Other Tangible Fixed Assets	5 - 8 years
Leasehold Improvements	5 years
Land	Not depreciated

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

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

2.9 Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible Assets (continued)

The Group amortizes its intangible assets consisting primarily of software on a straight-line basis over the estimated useful lives of 5 years. There are no intangible assets with indefinite useful lives.

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

2.10 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value (net of transaction costs except for those financial assets classified as at fair value through profit and loss which are initially measured at fair value). The Group determines the classification of its financial assets at initial recognition.

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

a) Financial Assets at Fair Value Through Profit or Loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income and include any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 25.

b) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. There has been no tainting in the held-to-maturity portfolio during 2008 or 2007.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees 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. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held to maturity securities is reported as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investments and Other Financial Assets (continued)

c) Loans and Receivables

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

d) Available-for-Sale Financial Assets

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

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive payments is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

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

e) Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in obligations under repurchase agreements. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using the effective interest method.

2.11 Offsetting Financial Instruments

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

2.12 Cash and Cash Equivalents

For the purposes of the consolidated cash flows statement, cash and cash equivalents comprise cash, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets

a) Assets carried at Amortized Cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets (continued)

a) Assets Carried at Amortized Cost (continued)

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

b) Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount. There is no impairment recorded related to assets carried at cost during 2008.

c) Assets carried at Fair Value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.14 Non-Current Assets Held for Sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Borrowings

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

2.16 Employee Benefits – Defined Benefit Plans

Defined Benefit Plans:

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

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 13 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2008 is TRY 179,779. (December 31, 2007 – TRY 160,512.)

In addition to the employee termination benefits, the Group maintains privately administrated pension plans, Pamukbank T.A.Ş. Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("Pamukbank Pension Fund") and T.C. Ziraat Bankası and T. Halk Bankası A.Ş. Mensupları Emekli ve Yardım Sandığı Vakfı ("Ziraat-Halk Pension Fund"). As of December 31, 2008 Pamukbank pension fund has 6,850 active members and Ziraat-Halk pension fund has 5,232 active members. The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the balance sheet in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the expected interest rates for Turkish Lira.

As per Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds are required to be transferred directly to the Social Security Foundation (SSF) within a period of three years. The Social Security Foundation and the Ministry of Labor completed the methodology and parameters to be used for the calculation of this transfer and the related Decree was approved by the Board of Ministries on 30 November 2006 and published in the Official Gazette no. 26377 dated 15 December 2006. The methodology included the calculation of the defined benefit obligation using 10.24% and inclusion of the present value of future employee contributions in plan assets. As of December 31, 2007, based on this methodology the Group recorded a provision of TRY 9,252. Based on the results of the actuarial report prepared as of December 31, 2008, no technical deficit has been reported.

2.17 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Leases

The Group as Lessee

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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

2.19 Insurance Contracts

Effective January 1, 2005, the Group's insurance subsidiary ("the Companies") adopted IFRS 4, Insurance Contracts ("IFRS 4"). IFRS 4 represents the completion of phase I and is a transitional standard until the IASB has more fully addressed the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. IFRS 4 permits a company to continue with its previously adopted accounting policies with regards to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with IAS 39 revised.

The Company enters into contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. Financial risk is defined as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. The Company has not entered into any contracts that transfer financial risk.

Reinsurance contracts held

The Company cedes premium and risks in the normal course of business in order to limit the potential for losses arising from risks accepted. Insurance premiums ceded to reinsurers on contracts that are deemed to transfer significant insurance risk are recognized as an expense in a manner that is consistent with the recognition of insurance premium revenue arising from the underlying risks being protected.

Insurance claims and loss adjustment expenses recovered from reinsurers are accounted for in the same accounting period as the claims for the related inward insurance and reinsurance business being covered and are estimated in a manner consistent with the claim liability associated with the reinsurance policy.

Provision is made for potentially non-collectable reinsurance recoveries and the exposure of the Company to credit risk is assessed through the aggregation of reinsurance assets due from counterparties belonging to the same insurance companies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Insurance Contracts (continued)

Deferred acquisition costs ("DAC")

Costs which vary and are directly associated with the acquisition of insurance and reinsurance contracts including brokerage, commissions, underwriting expenses and other acquisition costs are deferred and amortized over the period of contract, consistent with the earning of premium.

Insurance claims and loss adjustment expenses

Insurance claims and loss adjustment expenses comprise the estimated cost of all claims occurring prior to the balance sheet date, whether reported or not, and include loss adjustment expenses related to internal and external direct and indirect claims handling costs, and adjustments to claims outstanding from previous years. Claims handling costs include related internal and external direct and indirect claims handling costs and consist of third party loss adjustor fees, legal expenses and claims staff costs.

Liabilities for unpaid claims are made on an individual case basis and are based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods.

Liability adequacy test ("LAT")

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related DAC and premiums receivable.

Provision is made where current best estimates of future contractual cash flows and claims handling and administration expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums net of DAC and premiums receivable. Investment income from the assets backing the liabilities is taken into account in calculating the provision. The assessment of whether a provision is necessary is made on the basis of information available as of the balance sheet date, after offsetting surpluses and deficits arising on products which are managed together. Any deficiency is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Any DAC written off as a result of this test cannot subsequently be reinstated.

2.20 Interest Income and Expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Fee and Commission Income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.22 Income Tax

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

The Group is subject to income taxes in various jurisdictions. Where there are matters the final tax outcome 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.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from 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

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Derivative Financial Instruments

The Group started entering into transactions with derivative instruments including interest rate swaps and currency swaps in the foreign exchange and capital markets in 2006. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value 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. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. As of December 31, 2008, the carrying amount of derivative financial assets was TRY 79,182 (2007: TRY 6,777) and the carrying amount of derivative financial liabilities is TRY 22,246 (2007: TRY 97,087).

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the balance sheet date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and reprising date are used. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Bank engaged in a net investment hedge transaction for its foreign currency associate Demirhalkbank N.V., operating in Netherlands. The valuation difference as a result of this transaction was booked as currency translation differences under equity and recorded the valuation difference due to the net investment hedge transaction was booked as hedging funds under equity.

2.24 Fiduciary Assets

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

2.25 Segment Reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Changes in Accounting Policies

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2008. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's accounting policies in the following areas:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but they are not relevant to the Bank's operations:

IFRIC 11, "IFRS 2 – Group and treasury share transactions",
IFRIC 12, "Service concession arrangements",
IFRIC 14, "IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction".

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 8, "Operating segments" - This standard is effective for annual periods beginning on or after 1 January 2009.

IFRIC 13, "Customer loyalty programmes" – This standard is effective for annual periods beginning on or after 1 July 2008.

IFRIC 15, "Agreements for the Construction of Real Estate" – This standard is effective for annual periods beginning on or after 1 January 2009.

IFRIC 16, "Hedges of a net investment in a foreign operation" - This standard is effective for annual periods beginning on or after 1 October 2008.

IFRIC 17, "Distributions of non-cash assets to owners" - This standard is effective for annual periods beginning on or after 1 July 2009.

IFRIC 18, "Transfers of Assets from Customers" This standard is effective for transfers received on or after 1 July 2009.

IFRS 2, "Share-based Payment - Amendment relating to vesting conditions and cancellations" -This standard is Effective for annual periods beginning on or after 1 January 2009.

IFRS 1, "First-time Adoption of International Financial Reporting Standards- Amendment relating to cost of an investment on first-time adoption" - This standard is effective for annual periods beginning on or after 1 January 2009.

IFRS 3, "Business Combinations" - This standard is effective for annual periods beginning on or after 1 July 2009.

IAS 27, "Consolidated and Separate Financial Statements" - This standard is effective for annual periods beginning on or after 1 July 2009.

IAS 28, "Investments in Associates " - This standard is effective for annual periods beginning on or after 1 July 2009.

IAS 31 "Interests in Joint Ventures" Comprehensive revision on applying the acquisition method " - This standard is effective for annual periods beginning on or after 1 July 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Changes in Accounting Policies (continued)

IAS 23, "(Amendment) Borrowing costs" Comprehensive revision to prohibit immediate expensing – This standard is effective for annual periods beginning on or after 1 January 2009.

IAS 27, "Consolidated and Separate Financial Statements" Amendment relating to cost of an investment on first time Adoption –This standard is effective for annual periods beginning on or after 1 January 2009

IAS 1, "Presentation of Financial Statements" – This standard is effective for annual periods beginning on or after 1 January 2009.

IAS 32, "Financial Instruments: Presentation" Amendments relating to disclosure of puttable instruments and obligations arising on liquidation – This standard is effective for annual periods beginning on or after 1 January 2009.

• IAS 1, "Presentation of Financial Statements" Comprehensive revision including requiring a statement of comprehensive income – This standard is effective for annual periods beginning on or after 1 January 2009.

• IAS 39, "Financial Instruments: Recognition and Measurement" Amendments for eligible hedged items –This standard is effective for annual periods beginning on or after 1 January 2009.

The effects of Standards and Interpretations which are issued but not effective as of the date of issue of this financial statements which are relevant to the operations of the Bank are as follows:

IFRS 8, "Operating Segments"

IFRS 8 "Operating Segments" replaces IAS 14 'Segment Reporting'". This standard requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. The Bank, will apply IFRS 8 effective 1 January 2009.

IFRIC 13, "Customer Loyalty Programs"

Customer loyalty programs are accounted for as a separate component of the revenue. The amount of proceeds allocated to the award credits is measured by reference to their fair value and the deferred portion of the proceeds is recognized as revenue only when obligations are fulfilled. The impact of the first-time application of IFRIC 13 on the Bank's financial statements is currently being reviewed.

The Bank's management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank except for the revisions and interpretations in IFRS 8 and IFRIC 13.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

3. SEGMENT INFORMATION

Business segments

The Group is organized into three main business segments, Banking, Insurance and Securities Brokerage, which are organized and managed separately according to the nature of the products and services provided.

The segment results for the year ended December 31, 2008 are as follows:

	Banking	Insurance	Securities Brokerage	Inter-segment Eliminations	Group
Interest Income	6,792,931	17,582	3,464	(4,331)	6,809,646
Interest Expense	(4,666,693)	-	(240)	4,331	(4,662,602)
Net interest income	**2,126,238**	**17,582**	**3,224**	**-**	**2,147,044**
Fees and commissions income	442,466	-	3,097	(4,002)	441,561
Fees and commissions expenses	(72,198)	-	(200)	-	(72,398)
Foreign exchange gain	(706,762)	458	-	-	(706,304)
Gains less losses on securities	513,193	(8,054)	8,893	-	514,032
Income from insurance operations	-	155,282	-	-	155,282
Cost of insurance operations	-	(94,654)	-	4,002	(90,652)
Other income	139,870	704	-	-	140,574
Operating expenses	(1,098,764))	(38,031)	(9,809)	-	(1,146,604)
(Provisions for) / recoveries from impairment of loan receivables	33,151	-	-	-	33,151
Income from associates	38,371	-	-	(17,543)	20,828
Profit from before income tax	**1,415,565**	**33,287**	**5,205**	**(17,543)**	**1,436,514**
Income tax	(256,499)	(5,954)	(1,082)	-	(263,535)
Net profit	**1,159,066**	**27,333**	**4,123**	**(17,543)**	**1,172,979**

The segment assets and liabilities at 31 December 2008 are as follows:

	Banking	Insurance	Securities Brokerage	Inter-segment Eliminations	Group
Assets and Liabilities					
Segment assets	50,838,487	220,462	36,453	(84,834)	51,010,568
Investment in associates	233,034	684	-	(63,217)	170,501
Total assets	**51,071,521**	**221,146**	**36,453**	**(148,051)**	**51,181,069**
Segment liabilities	46,529,431	140,030	5,240	(84,834)	46,589,867
Total liabilities	**46,529,431**	**140,030**	**5,240**	**(84,834)**	**46,589,867**
Other segment items					
Capital expenditure	441,101	582	313	-	441,996
Depreciation	51,378	275	170	-	51,823
Amortization	648	128	39	-	815

Inter-segment transfers and transactions are entered into under the normal commercial terms and conditions that would also be available to third parties.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

3. SEGMENT INFORMATION (continued)

Business segments (continued)

The segment results for the year ended December 31, 2007 are as follows:

	Banking	Insurance	Securities Brokerage	Inter-segment Eliminations	Group
Interest Income	5,708,181	14,294	2,119	(1,202)	5,723,392
Interest Expense	(3,956,670)	(2)	-	1,202	(3,955,470)
Net interest income	**1,751,511**	**14,292**	**2,119**	**-**	**1,767,922**
Fees and commissions income	347,252	-	6,612	(11,255)	342,609
Fees and commissions expenses	(51,036)	-	(487)	-	(51,523)
Foreign exchange gain	4,331	(260)	24	-	4,095
Gains less losses on securities	(46,268)	-	2,448	-	(43,820)
Income from insurance operations	-	137,180	-	(3,603)	133,577
Cost of insurance operations	-	(109,672)	-	11,255	(98,417)
Other income	253,309	340	1,234	(1,122)	253,761
Operating expenses	(878,500)	(18,460)	(6,620)	(248)	(903,828)
(Provisions for) / recoveries from impairment of loan receivables	(67,350)	-	-	-	(67,350)
Income from associates	26,099	264	-	(7,859)	18,504
Profit from before income tax	**1,339,348**	**23,684**	**5,330**	**(12,832)**	**1,355,530**
Income tax	(252,342)	(3,634)	(1,145)	-	(257,121)
Net profit	**1,087,006**	**20,050**	**4,185**	**(12,832)**	**1,098,409**

The segment assets and liabilities at 31 December 2007 are as follows:

	Banking	Insurance	Securities Brokerage	Inter-segment Eliminations	Group
Assets and Liabilities					
Segment assets	39,958,780	168,701	29,861	(22,778)	40,134,564
Investment in associates	202,556	632	-	(58,970)	144,218
Total assets	**40,161,336**	**169,333**	**29,861**	**(81,748)**	**40,278,782**
Segment liabilities	35,713,307	102,613	2,771	(22,778)	35,795,913
Total liabilities	**35,713,307**	**102,613**	**2,771**	**(22,778)**	**35,795,913**
Other segment items					
Capital expenditure	138,859	491	145	-	139,495
Depreciation	57,443	370	156	-	57,969
Amortization	451		56		507

Inter-segment transfers and transactions are entered into under the normal commercial terms and conditions that would also be available to third parties.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

3. SEGMENT INFORMATION (continued)

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the parent bank, which is also the main operating company. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

Year ended December 31, 2008

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Other segment information						
Segment assets	48,739,651	2,119,363	197,385	28,943	95,727	51,181,069
Unallocated assets	-	-	-	-	-	-
Total assets	**48,739,651**	**2,119,363**	**197,385**	**28,943**	**95,727**	**51,181,069**
Acquisition of segment assets	441,996	-	-	-	-	441,996

Year ended December 31, 2007

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Other segment information						
Segment assets	37,749,122	1,238,428	42,685	112,246	1,136,301	40,278,782
Unallocated assets	-	-	-	-	-	-
Total assets	**37,749,122**	**1,238,428**	**42,685**	**112,246**	**1,136,301**	**40,278,782**
Acquisition of segment assets	139,495	-	-	-		139,495

Total assets are allocated based on where the assets are located.

The segment results for the year ended December 31, 2008 are as follows:

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Revenue	6,698,503	87,632	9,083	1,424	13,004	6,809,646

The segment results for the year ended December 31, 2007 are as follows:

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Revenue	5,505,630	45,534	2,235	5,877	164,116	5,723,392

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

4. CASH AND CASH EQUIVALENTS

	December 31, 2008	December 31, 2007
Cash on hand	**211,998**	**229,683**
Demand deposits - Turkish Lira	26,646	10,556
Demand deposits - Foreign Currency	46,077	18,220
Time deposits	2,025,242	1,133,608
Reverse repurchase agreements	-	50,025
Deposits with banks and other financial institutions	**2,097,965**	**1,212,409**
Cash and cash equivalents	**2,309,963**	**1,442,092**

The effective interest rates on deposits and placements are as follows:

	December 31, 2008 Effective interest rate		December 31, 2007 Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with Central Bank (**)	12.25%	-	11.81%	1,80 % EURO - 1,95 % USD
Deposits with banks and other financial institutions (*)	12.12%	1,90 % EURO - 2,81 % USD	16.61%	3,30 % EURO - 4,66 % USD
Funds lent under reverse repurchase agreements	-	-	18.10%	-

(*) Interest rates calculated from weighted average of placements as of December 31, 2008 and 2007.
(**)As of December 12, 2008, interest rate given by Central Bank of Turkey to USD and EURO reserve deposits is nil.

5. BALANCES WITH CENTRAL BANK

	December 31, 2008	December 31, 2007
Balances with Central Bank	1,915,813	2,575,943
Reserve deposits	881,519	665,726
Balances with Central Bank	**2,797,332**	**3,241,669**

Under the regulations of the Central Bank of the Turkish Republic ("Central Bank"), banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than domestic interbank deposits. These reserves are not available to finance the operations of the Bank. Balances with the Central Bank earn interest at the interest rates determined by the Central Bank.

As of December 31, 2008 under the prevailing regulation the Bank has to maintain the following requirements of the Central Bank of Turkey related to reserve deposits:

Reserve deposits represent the minimum deposits maintained with the Central Bank. The rates used by the Central Bank to determine the required amount of deposits are 6% for New Turkish Lira deposits and 9% for foreign currency deposits (2007: % 6 for New Turkish Lira deposits and 11% for foreign currency deposits). As of December 12, 2008, interest rate given by Central Bank of Turkey to USD and EURO reserve deposits is nil. (2007: Interest rates given by Central Bank of Turkey are 12.14% for TRY deposits and 1.95% and 1.80% for USD and Euro deposits, respectively).

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

6. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss:

	December 31, 2008	December 31, 2007
	Amount	Amount
Financial assets at fair value through profit and loss		
Debt instruments		
Turkish Government bonds and Eurobonds issued by the Turkish Government	46,345	483,870
Turkish treasury bills	1,547	1,782
Equity instruments –listed	9	111
Total financial assets at fair value through profit and loss	47,901	485,763

Investment Securities:

	December 31, 2008	December 31, 2007
	Amount	Amount
Available- for-sale securities – Quoted	**2,457,559**	**8,528,474**
Turkish Government bonds and Eurobonds issued by the Turkish Government	2,455,960	8,528,474
Turkish treasury bills	1,599	-
Available-for-sale securities -Unquoted	**11,330**	**10,180**
Equity instruments –unlisted at cost	11,330	10,180
Total available for sale securities	**2,468,889**	**8,538,654**

	December 31, 2008	December 31, 2007
	Amount	Amount
Held to maturity securities - Quoted	**9,982,371**	**-**
Turkish Government bonds	8,219,844	-
Eurobonds issued by the Turkish Government	1,762,527	-
Held to maturity securities - Unquoted	**5,881,293**	**7,037,420**
Turkish government bonds	5,881,293	7,037,420
Turkish treasury bills	-	-
Total held-to-maturity securities	**15,863,664**	**7,037,420**

In order to avoid the effect of market fluctuations on securities portfolio, on October 3, 2008 and October 8, 2008, the Bank reclassified TRY 8.961 Million in total; TRY 378 Million from Financial Assets at Fair Value Through Profit and Loss and TRY 8.583 Million from Available for Sale Securities portfolio to Held to Maturity Securities portfolio as permitted by the amendment of the International Accounting Standards Board issued in October 2008 to IAS 39 "Financial instruments: recognition and measurement" on reclassification of financial assets. Had the reclassification from Financial Assets at Fair Value Through Profit and Loss not been made to Held To Maturity Securities Portfolio, the bank would have recorded TRY 25.125 Thousand income accrual as at December 31, 2008. Fair value of the financial assets reclassified to held to maturity portfolio as of December 31, 2008 is TRY 9,772,228 thousand.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

6. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently they are reflected at cost less reserve for impairment, as a reliable estimate of their fair values could not be made.

Securities Pledged Under Repurchase Agreements:

Carrying value of debt instruments given as collateral under repurchase agreements which are classified as loaned securities and related liabilities are:

	December 31, 2008	December 31, 2007
Held-to-maturity securities	2,764,635	1,424,253
Available-for-sale securities	-	687,437
Carrying value of securities under repurchase agreements	**2,764,635**	**2,111,690**
Related liability	**2,390,444**	**1,700,455**

Repurchase agreements mature within 28 days. (31.12.2007: 45 days)

In addition, as of December 31, 2008, government securities with carrying values of TRY 2,042,197 (December 31, 2007 - TRY 1,733,056) are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Bank) for regulatory requirements and as a guarantee for stock exchange and money market operations.

TRY 10,774,765 Thousand (December 31, 2007: TRY 12,541,814 Thousand) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

7. LOANS AND ADVANCES

	December 31, 2008	December 31, 2007
Loans and advances to financial institutions	**420,658**	**265,872**
Loans and advances to customers		
Cooperative loans	3,185,364	2,681,722
Commercial and industrial loans	15,198,484	9,934,568
Consumer loans	5,217,453	3,918,614
Funded loans	1,204,554	1,033,342
Credit cards	409,213	279,247
Non performing loans	1,251,362	1,032,742
Total loans and advances to customers	**26,466,430**	**18,880,235**
Less: allowance for losses on loans and advances	(961,471)	(946,770)
Total loans and advances to customers, (net)	**25,504,959**	**17,933,465**

Non performing loans represent impaired loans and advances on which interest is not being accrued and loans overdue generally for more than 90 days for which interest is suspended.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

7. LOANS AND ADVANCES (continued)

Loans and advances amounting to TRY 12,892,633 have floating interest rates and the rest have fixed interest rates. (December 31, 2007 – TRY 9,019,925)

Allowance for losses on loans and advances include the portfolio reserve and the specific reserve for loans. The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

Movements in the allowance for losses on loans and advances:

	December 31, 2008	December 31, 2007
At the beginning of year	946,770	879,420
Provision for impairment	237,495	246,896
Recoveries	(222,794)	(179,546)
At the end of the year	**961,471**	**946,770**

8. INVESTMENT IN ASSOCIATES

	December 31, 2008		December 31, 2007	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investment in associate				
Halk Finansal Kiralama A.Ş.	30,041	47.75%	22,116	47.75%
Kobi Yatırım	11,483	31.47%	9,878	31.47%
Demir Halk Bank NV	122,576	30.00%	106,168	30.00%
Others	6,401		6,056	
Total	**170,501**		**144,218**	

Summary of latest financial information of investments is:

	Assets	Liabilities	Equity	Revenue	Profit / (Loss)
Investment in associate					
Halk Finansal Kiralama A.Ş.	421,281	384,683	62,911	37,192	8,612
Kobi Yatırım	36,616	128	36,488	25,921	3,995
Demir Halkbank NV	4,673,204	4,257,886	415,318	104,144	16,080

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

9. PREMISES AND EQUIPMENT

	Land and Buildings	Leasehold Improvements	Fixed Assets Obtained for Non Performing Loans	Other Movable Fixed Assets	Total
Acquisition Cost					
At January 1, 2008	**648,367**	**37,504**	**84,936**	**517,956**	**1,288,763**
Additions	266,549	37,255	93,976	44,216	441,996
Impairment	(3,677)	-	(953)	-	(4,630)
Disposals	(834)	(22,378)	(4,676)	(72,543)	(100,431)
Transfers to asset held for sale	(24,933)	-	(68,300)	-	(93,233)
At December 31, 2008	**885,472**	**52,381**	**104,983**	**489,629**	**1,532,465**
Accumulated Depreciation					
At January 1, 2008	**(158,148)**	**(22,972)**	**(1,538)**	**(429,136)**	**(611,794)**
Charge for the year	(13,660)	(4,894)	(1,888)	(31,381)	(51,823)
Disposals	-	6,734	105	62,411	69,250
Transfer to asset held for sale	3,790	-	594	-	4,384
At December 31, 2008	**(168,018)**	**(21,132)**	**(2,727)**	**(398,106)**	**(589,983)**
At December 31, 2008	**717,454**	**31,249**	**102,256**	**91,523**	**942,482**

In Turkey, property, plant and equipment experience significant and volatile changes in fair value, thus necessitating frequent revaluation. The fair values of land and buildings and fixed assets obtained for non performing loans were determined from market-based evidence by appraisals which are undertaken by qualified external and/or internal appraisers. The bank renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts.

As of December 31, 2008 the cost of fully depreciated items is amounting to TRY 280,901 (December 31, 2007 – TRY 301,190).

	Land and Buildings	Leasehold Improvements	Fixed Assets Obtained for Non Performing Loans	Other Movable Fixed Assets	Total
Acquisition Cost					
At January 1, 2007	**635,641**	**37,061**	**101,983**	**522,713**	**1,297,398**
Additions	37,196	8,355	63,696	30,248	139,495
Impairment	4,643	-	(472)	-	4,171
Disposals	(5,572)	(7,912)	(21,957)	(35,005)	(70,446)
Transfer to asset held for sale	(23,541)	-	(58,314)	-	(81,855)
At December 31, 2007	**648,367**	**37,504**	**84,936**	**517,956**	**1,288,763**
Accumulated Depreciation					
At January 1, 2007	**(153,481)**	**(24,593)**	**(2,232)**	**(419,909)**	**(600,215)**
Charge for the year	(13,388)	(4,409)	(2,184)	(37,988)	(57,969)
Disposals	1,424	6,030	973	28,761	37,188
Transfers to asset held for sale	7,297	-	1,905	-	9,202
At December 31, 2007	**(158,148)**	**(22,972)**	**(1,538)**	**(429,136)**	**(611,794)**
At December 31, 2007	**490,219**	**14,532**	**83,398**	**88,820**	**676,969**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

10. OTHER ASSETS

	December 31, 2008	December 31, 2007
Sundry debtors	8,840	9,578
Banking service receivables	3,751	3,269
Receivables from credit cards	34,839	10,790
Prepaid expenses	15,307	4,191
Receivables from cheque clearance	108,984	176,769
Receivables from sale of assets	59,166	48,615
Temporary accounts	13,807	10,358
Collaterals paid for derivative instruments	91,020	53,256
Other	10,989	10,283
Total	**346,703**	**327,109**

11. DEPOSITS

Deposits from banks	December 31, 2008	December 31, 2007
Demand	142,378	13,641
Time	1,122,304	1,035,408
Total	**1,264,682**	**1,049,049**

Deposits from customers	December 31, 2008	December 31, 2007
Savings	**29,645,907**	**22,145,676**
Demand	2,113,419	1,805,459
Time	27,532,488	20,340,217
Deposits from Governmental Institutions	**1,444,418**	**1,316,173**
Demand	530,507	394,029
Time	913,911	922,144
Commercial Deposits	**5,428,232**	**3,711,361**
Demand	984,788	869,519
Time	4,443,444	2,841,842
Other Deposits	**2,408,041**	**2,598,393**
Demand	222,967	227,059
Time	2,185,074	2,371,334
Total	**38,926,598**	**29,771,603**

All deposits have fixed interest for the years ended December 31, 2008 and December 31, 2007.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

12. FUNDS BORROWED

	December 31, 2008	December 31, 2007
Borrowings	1,521,877	937,028
Funds	1,215,476	1,042,336
Total	**2,737,353**	**1,979,364**

December 31, 2008	Amount	Interest Rate	Maturity
USD denominated borrowings	469,072	Libor + 0.10 Libor + 0.15	February 2009 - September 2029
EUR denominated borrowings	850,435	Euribor + 0.1 - Euribor + 0.40 6.2%	February 2009 - December 2009
TRY denominated borrowings	202,370	13.5% - 16.5%	March 2009 - December 2009
Total	**1,521,877**		

December 31, 2007	Amount	Interest Rate	Maturity
USD denominated borrowings	50,273	Libor + 0.15 5.69%-6.45%	February 2008 - September 2026
EUR denominated borrowings	498,897	Euribor + 0.1 - Euribor + 0.41 3.7% - 6.2%	February 2008 - December 2008
TRY denominated borrowings	386,853	10.8% - 11.6%	March 2008 - December 2008
Other borrowings	1,005		
Total	**937,028**		

The amounts of funds of the Group as of December 31, 2008 are as follows:

	December 31,2008	December 31,2007
Ministry of Industry and Commerce	-	12,326
Funds transferred from Emlak Bank	111,050	111,955
Establishing small manufacturing shops and sites	345,087	307,450
Organized manufacturing regions	549,254	443,384
Undersecreteriat of Treasury	25,037	51,374
Housing estate fund	81,102	98,964
Other	103,946	16,883
Total	**1,215,476**	**1,042,336**

Funds borrowed include other funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the ministries or the institutions that the funds belong to. In housing estate funds the risk of the loans originated belongs to the Bank, while in the remaining funds Bank has no risk on the interest and installments of the loan originated.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

12. FUNDS BORROWED (continued)

	December 31, 2008	December 31, 2007
Short term borrowings	459,918	153,453
Long term borrowings	1,061,959	783,575
Total	**1,521,877**	**937,028**

Repayment plan of borrowings is as follows:

	December 31, 2008		December 31, 2007	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2008	-	-	99,546	53,907
2009	372,317	87,601	-	10,548
2010 and thereafter	231,411	724,077	411,542	337,249
Other	2,846	103,625	2,865	21,371
Total	**606,574**	**915,303**	**513,953**	**423,075**

Funds borrowed are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

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

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

13. OTHER LIABILITIES AND PROVISIONS

	December 31, 2008	December 31, 2007
Other liabilities		
Cooperative deposit blockages	276,064	247,035
Taxes and dues payable	119,387	82,215
Other restricted accounts	2,787	2,832
Cheques clearance account	107,544	209,297
Import transfer orders	927	2,678
Credit card members restricted account	116,567	75,946
Payment orders	12,394	8,885
Obligations under finance leases	284	5,567
Unearned revenue	26,713	41,677
Resource utilization support fund	12,446	6,905
Collaterals received for derivative instruments	10,125	-
Debts for securities investment fund	4,202	3,865
Trade payables to vendors	3,364	949
Other liabilities	79,424	34,110
	772,228	**721,961**
Provisions		
Employee termination benefits	179,779	160,512
Unused vacation provision	56,569	49,087
Provision on lawsuits	17,606	8,929
Provision on non-cash loans	48,027	62,690
Provisions for credit card bonuses	3,127	5,500
Provision for actuarial deficit on Pamukbank pension fund	-	9,252
Other	27,000	1,469
	332,108	**297,439**
Total	**1,104,336**	**1,019,400**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

13. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TRY 2,173 and TRY 2,030 at December 31, 2008 and 2007 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 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 TRY 2,260 effective January 1, 2009.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	December 31, 2008	December 31, 2007
Discount rate for pension plan liabilities	12%	11 %
Expected rates of salary increase	7.4%	7 %
Inflation	5.4 %	5 %

Movements in the present value of the defined benefit were as follows:

	December 31, 2008	December 31, 2007
Opening defined benefit obligation	160,512	146,468
Current service cost	10,704	9,593
Interest cost	16,940	15,564
Actuarial (gains)/losses	18,869	3,229
Benefits paid	(27,246)	(14,342)
Closing defined benefit obligation, recognized in the balance sheet	**179,779**	**160,512**

Amounts recognized in profit and loss in respect of defined benefit plan are as follows:

	December 31, 2008	December 31, 2007
Current service cost	10,704	9,593
Interest cost	16,940	15,564
Amortization of unrecognized net (gain)/loss	18,869	3,229
	46,513	**28,386**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

14. INSURANCE TECHNICAL RESERVES

	December 31,2008	December 31,2007
Unearned premiums reserve	61,220	48,663
Unearned premiums reserve, reinsurers' share	(16,780)	(7,521)
	44,440	**41,142**
Claims provision	47,054	40,660
Claims provision, reinsurers' share	(11,185)	(4,107)
	35,869	**36,553**
Life mathematical reserve	37,656	18,424
Life mathematical reserve, reinsurers' share	(801)	(983)
	36,855	**17,441**
Total	**117,164**	**95,136**

15. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rates of tax are as follows: 2008: 20% and 2007: 20%.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate is 20% for 2008 (2007: 20%). The excess advance tax paid of corporate income that was calculated at the rate of 30% during the taxation of the corporate income in advance taxation periods after January 2006 over 20% will be deducted from future temporary tax returns.

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between April 1 and April 25 following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

15. INCOME TAXES (continued)

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

	December 31, 2008	December 31, 2007
Current income tax expense	249,920	298,329
Deferred income tax expense / (income)	13,615	(41,208)
Income tax expense reported in consolidated income statement	**263,535**	**257,121**

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

	December 31, 2008	December 31, 2007
Profit before tax	1,436,514	1,355,530
At Turkish statutory income tax rate of 20% (2007 – 20%)	287,303	271,106
Disallowed expenses	1,873	2,470
Branches exempt from taxation	(20,068)	-
Dividend	(2,227)	(3,853)
Other non-taxable items	(3,346)	(12,602)
Income tax	**263,535**	**257,121**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

15. INCOME TAXES (continued)

Deferred income tax

Deferred income tax as at December 31, 2008 and 2007 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2008	2007	2008	2007
Deferred income tax liabilities				
Reversal of specific loan provision	51,875	49,449	(2,426)	14,025
Net book value difference of premises and equipment	2,620	4,133	1,513	(651)
Valuation differences of derivatives	11,390	-	(11,390)	-
Other	1,199	695	(504)	464
Gross deferred income tax liabilities	67,084	54,277	(12,807)	13,838
Deferred income tax assets				
Adjustments to portfolio reserve on loans and advances	40,218	37,171	3,047	10,293
Valuation differences of derivatives	-	18,062	(18,062)	10,130
Valuation differences of held-to-maturity securities	23,272	1,507	21,765	(1,049)
Impairment on premises and equipment	-	-	-	-
Employee termination benefits and vacation pay liability	47,413	41,859	5,554	3,915
Credit cards bonus payment liability	625	1,100	(475)	(3,114)
Other	5,311	2,715	2,596	(822)
Gross deferred income tax assets	116,839	102,414	14,425	19,353
Deferred income tax asset, net	49,755	48,137	1,618	33,191
Deferred income tax credit (charge) recognized in equity			(15,233)	8,017
Deferred income tax credit (charge) recognized in income statement, net			(13,615)	41,208

Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, deferred tax assets and liabilities of the Group are presented separately for different entities of the Group on the balance sheet as:

	December 31, 2008	December 31, 2007
Deferred tax asset	116,839	102,414
Deferred tax liability	67,084	54,277
Total	49,755	48,137

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

	December 31, 2008	December 31, 2007
Balance at January 1	48,137	14,946
Deferred income tax credit (charge) recognized in equity	15,233	(8,017)
Deferred income tax credit (charge) recognized in income statement		
Temporary differences	(13,615)	41,208
Balance at period-end	**49,755**	**48,137**

Deferred income tax liability was not established for the withholding tax that would be payable on the unremitted earnings of the foreign associate, as such are permanently reinvested.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

16. DERIVATIVES

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

	December 31, 2008			December 31, 2007		
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent
Derivatives held-for-trading						
Currency swap contracts	-	3,940	1,311,741	-	7,957	1,454,776
Interest swap contracts	78,288	17,831	827,210	6,726	89,094	1,021,525
Other	894	475	124,206	51	36	4,045
	79,182	**22,246**	**2,263,157**	**6,777**	**97,087**	**2,480,346**

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

17. SHARE CAPITAL

	December 31, 2008	December 31, 2007
TRY 0.0001 (in full TRY), par value	242,085	242,085
TRY 0.0005 (in full TRY), par value	6,085	6,085
TRY 0.001 (in full TRY), par value	972,749	972,749
TRY 0.01 (in full TRY), par value	49,900,000	49,900,000
TRY 0.1 (in full TRY), par value	145,000,000	145,000,000
TRY 1 (in full TRY), par value	1,235,000,000	1,235,000,000
Total number of shares	**1,431,120,919**	**1,431,120,919**
Paid-in capital	1,250,000	1,250,000
Inflation restatement effect	1,328,184	1,328,184
Shared capital issued	**2,578,184**	**2,578,184**

As of December 31, 2008 and 2007 the Bank's historical subscribed and issued share capital was TRY 1,250,000 and TRY 1,250,000 respectively.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Movement in legal reserves and retained earnings are as follows:

	Legal Reserves	Retained Earnings	Total
At December 31, 2006	**893,760**	**649,585**	**1,543,345**
Transfer from retained earnings	112,847	(112,847)	-
Dividends paid	-	(751,428)	(751,428)
Other	26	11	37
Net profit for the period (year)	-	1,097,252	1,097,252
At December 31, 2007	**1,006,633**	**882,573**	**1,889,206**
Transfer from retained earnings	138,570	(138,570)	-
Dividends paid	-	(875,780)	(875,780)
Other	(19)	143	124
Hedges for investments made in foreign countries	-	(34,225)	(34,225)
Net profit for the period (year)	-	1,171,537	1,171,537
At December 31, 2008	**1,145,184**	**1,005,678**	**2,150,862**

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.

Dividends Paid and Proposed

In the General Assembly meeting of the Parent Bank, dated April 14, 2009, decision was taken for profit distribution amounting to TRY 281,579 out of year 2008 profit. As of the reporting date, no dividend payment has yet been done. (2007: TRY 875,780)

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

19. EARNINGS PER SHARE

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

		Number of Shares Issued Attributable to				
	Opening	Cash	Transfers from Retained Earnings	Reinvestment of Dividend Payments	Total	Closing
2003 and before	1,331,120,919	-	-	-	-	1,331,120,919
2004	1,331,120,919	-	-	-	-	1,331,120,919
2005	1,331,120,919	-	-	-	-	1,331,120,919
2006	1,331,120,919	100,000,000	-	-	100,000,000	1,431,120,919
2007	1,431,120,919	-	-	-	-	1,431,120,919
2008	1,431,120,919	-	-	-	-	1,431,120,919

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

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

	December 31, 2008	December 31, 2007
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	1,172,979	1,098,409
Weighted average number of ordinary shares for basic earnings per share	1,431,120,919	1,431,120,919
Basic earnings per share	0,00082	0,00077

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

20. RELATED PARTIES

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

20. RELATED PARTIES (continued)

Transactions with key management personnel:

Key management personnel comprise of the Group's directors and key management executive officers.

As of December 31, 2008 and 2007 the Group's directors and executive officers have no outstanding personnel loans from the Parent Bank:

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	December 31, 2008	December 31, 2007
Salaries and Short-Term Benefits	2,226	1,583

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank's management believes that all such agreements or protocols are on terms that are at least as advantageous to the Company as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

Other related party transactions:

December 31, 2008	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense
Halk Finansal Kiralama A.Ş.	50,146	2,601	918	1,877	-
Demir Halk NV	30,000	200	-	-	-
Kredi Garanti Fonu İşletme ve Araştırma A.Ş.	-	165	9,080	1	2,284
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	1,080	24,592	1	2
Ziraat Halk Alternatif Dağıtım Kanalları	-	-	112	-	1
MESBAŞ	-	-	1,388	-	34
KKB	-	-	3,172	-	-
Total	**80,146**	**4,046**	**39,262**	**1,879**	**2,321**

As of 31 December 2008, cash loans due from Halk Finansal Kiralama A.Ş. realized in currencies other than functional currency comprise cash loans USD 5,833,334 and EUR 18,951,335 and non cash loans comprise USD 1,286,727 and EUR 320,000. Cash loans due from Demir Halk N.V comprise USD 20,000,000.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

20. RELATED PARTIES (continued)

December 31, 2007	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense
Halk Finansal Kiralama A.Ş.	26,502	4,284	1,626	520	41
Demir Halk NV	17,400	166	-	96	-
Kredi Garanti Fonu İşletme ve Araştırma A.Ş.	-	162	19,799	-	2,332
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	-	27,215	-	3,658
Ziraat Halk Alternatif Dağıtım Kanalları	-	-	1,114	-	12
MESBAŞ	-	-	1,166	-	73
KKB	-	-	1,417	-	-
Total	**43,902**	**4,612**	**52,337**	**616**	**6,116**

As of 31 December 2007, cash loans due from Halk Finansal Kiralama A.Ş. realized in currencies other than functional currency comprise cash loans USD 14,166,667 and EUR 5,927,000 and non-cash loans comprise USD 3,031,269 and EUR 452,000. Cash loans due from Demir Halk N.V comprise USD 15,000,000.

Agreements with Related Parties:

Birlik Hayat Sigorta A.Ş.:

Birlik Hayat Sigorta A.Ş. provides life insurance services in terms of individual, groups and individual accident insurance. According to agreement between the Bank and the Company, branches are assigned so as to operate as agencies of Birlik Hayat Sigorta A.Ş.

Halk Yatırım Menkul Değerler A.Ş.:

Halk Yatırım Menkul Değerler A.Ş. performs capital markets operations as public offering intermediaries, repurchase and reverse repurchase agreements, portfolio management and investment consulting. The Company is ranked in the mid-positions between more than 100 companies operating in the sector. According to the agreement between the Bank and the Company, branches are assigned so as to operate as agencies of the Company.

Kredi Garanti Fonu İşletme ve Araştırma A.Ş.:

Kredi Garanti Fonu İşletme ve Araştırma A.Ş. is supporting the Small and Medium Size Enterprises (SME's) by providing guarantee for their financing and consequently increasing the credit usage in general. According to agreement with the Bank and the Company, it is decided to establish a responsibility fund which would be the collateral of the guarantee commitments given by the Company for SME's to utilize loans from the Bank.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

21. OTHER INCOME

	2008	2007
Gain on sale of fixed assets	76,059	150,535
Income from other banking services	19,090	38,009
Other	45,425	65,217
Total	**140,574**	**253,761**

22. OPERATING EXPENSES

	2008	2007
Administrative expenses	353,068	263,516
Staff costs:		
Personnel expenses	517,509	457,400
Retirement pay provision	46,513	28,386
Depreciation expense	52,638	58,476
Loss on sale of assets	8,669	11,232
Provision expense for lawsuits	614	640
Provision expense for other receivables	-	3,833
Saving deposit insurance fund expenses	63,098	47,686
Taxes, duties, charges and premium expenses	33,880	29,478
Other	70,615	3,181
Total	**1,146,604**	**903,828**

23. FEES AND COMMISSIONS INCOME AND EXPENSES

	2008	2007
Fees and commissions income		
Banking	438,464	335,997
Brokerage	3,097	6,612
Total	**441,561**	**342,609**
Fees and commissions expenses		
Banking	(72,198)	(51,036)
Brokerage	(200)	(487)
Total	**(72,398)**	**(51,523)**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

24. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	December 31, 2008	December 31, 2007
Letters of guarantee issued	4,853,199	3,042,648
Letters of credit	1,780,112	677,116
Acceptance credits	78,257	31,969
Other	27,284	13,346
Total non-cash loans	**6,738,852**	**3,765,079**
Other commitments	2,215,400	1,888,687
Insurance commitments	179,783,855	105,901,588
Credit card limit commitments	1,854,559	1,250,168
Total	**190,592,666**	**112,805,522**

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 the accompanying financial statements.

The Group also manages six investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable 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.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of December 31, 2008, according to the general requirements of the ISE, letters of guarantee amounting to TRY 8,252 and (December 31, 2007 - TRY 8,252) was obtained from various local banks and were provided to ISE for bond and stock market transactions.

Litigation

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

Other

Except for the 357 branch buildings, all other 225 branch premises of the Parent Bank are leased under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management no provision is necessary for this remote contingency.

25. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Group. The Bank Risk Management supervises the risk management process of the Group.

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

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

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

Credit Risk

The Bank manages its credit risk by limiting its risk through involvement with highly credible banks and organizations. Under the risk management the bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The bank's credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily in cooperation with the Treasury Department.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Financial statements obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank's Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of suretyships, mortgages on property, cash blockages and cheques.

The Bank has a policy to reduce total risk by an immediate settlement of forward and option contracts through usage of rights, fulfillments of obligations or sale due to a significant credit risk which might be encountered.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan clients of the Parent Bank to the total loan portfolio is 22.20 %. (2007:15.84%)

The percentage of the top 100 non-cash loan clients of the Parent Bank to the total loan portfolio is 60.69 %. (2007:53.77%)

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 14.22 %. (2007: 9.64%)

Derivatives:

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows:

	December 31, 2008	
	Cash	Non-cash
Agricultural	1,007,894	67,788
Farming and raising livestock	979,925	66,271
Forestry	6,337	587
Fishing	21,632	930
Manufacturing	7,508,241	3,107,251
Mining	134,490	47,813
Production	7,260,809	2,797,814
Electric, gas and water	112,942	261,624
Construction	1,004,815	1,724,108
Services	9,420,218	1,791,366
Wholesale and retail trade	4,439,344	754,233
Hotel, food and beverage services	431,510	16,902
Transportation and telecommunication	1,620,765	60,952
Financial Institutions	1,039,880	730,425
Real estate and renting services	1,275,098	97,413
Self-employment services	137,946	3,930
Education services	61,581	3,252
Health and social services	414,094	124,259
Other	6,694,558	48,339
Total loans	25,635,726	6,738,852
Non performing loans	1,251,362	-
Less: allowance for losses on loans and advances	(961,471)	-
Total	**25,925,617**	**6,738,852**

	December 31, 2007	
	Cash	Non-cash
Agricultural	761,095	11,093
Farming and raising livestock	732,861	8,518
Forestry	8,979	1,375
Fishing	19,255	1,200
Manufacturing	4,690,113	1,439,305
Mining	99,998	24,173
Production	4,524,940	1,298,616
Electric, gas and water	65,175	116,516
Construction	625,482	624,000
Services	7,221,036	1,404,940
Wholesale and retail trade	3,678,143	590,429
Hotel, food and beverage services	1,004,411	78,720
Transportation and telecommunication	249,617	10,317
Financial Institutions	1,081,574	73,632
Real estate and renting services	672,931	288,410
Self-employment services	51,017	5,630
Education services	362,848	355,198
Health and social services	120,495	2,604
Other	4,815,639	285,741
Total loans	18,113,365	3,765,079
Non performing loans	1,032,742	-
Less: allowance for losses on loans and advances	(946,770)	-
Total	**18,199,337**	**3,765,079**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk by types of borrowers and geographical concentration:

	Loans and advances to customers		Loans and advances to financial institutions		Marketable Securities*	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to borrowers:						
Private Sector	18,532,873	13,495,242	381,182	244,117	11,328	9,975
Public Sector	808,493	7,358	-	-	18,369,126	16,058,639
Banks	-	-	30,000	17,400	-	-
Retail	5,595,897	4,117,850	-	-	-	-
Share Certificates	-	-	-	-	-	-
Total	24,937,263	17,620,450	411,182	261,517	18,380,454	16,068,614
Information according to geographical concentration:						
Domestic	24,835,979	16,491,137	381,182	244,117	18,372,468	16,061,688
EU Countries	42,964	-	30,000	17,400	6,898	5,594
OECD Countries **	-	-	-	-	-	-
Offshore Banking Regions	-	-	-	-	-	-
USD, Canada	-	-	-	-	-	-
Other Countries	58,320	1,129,313	-	-	1,088	1,332
Total	24,937,263	17,620,450	411,182	261,517	18,380,454	16,068,614

(*) Includes marketable securities designated at fair value through profit or loss, available-for-sale, held-to-maturity and derivative financial assets.
(**) OECD countries other than EU countries, USA and Canada.
(***) Interest and income accruals for the loans are not included in table above.

Credit quality per class of financial assets as of December 31, 2008:

As of December 31, 2008	Neither past due nor impaired	Past due or individually impaired	Total
Receivables from Banks	2,097,965	-	2,097,965
Financial Assets at Fair Value Through Profit and Loss	47,901	-	47,901
Loans	23,947,504	571,104	24,518,608
Corporate Lending	5,913,616	31,614	5,945,230
SME Lending	12,363,584	490,376	12,853,960
Consumer Lending	5,146,298	49,076	5,195,374
Other	524,006	38	524,044
Financial Assets Available for Sale	2,468,889	-	2,468,889
Investments Held to Maturity	15,863,664	-	15,863,664

(*) Credit cards (TRY 399,995 Thousand) and loans of which risk does not belong to Bank (TRY 1,007,014 Thousand) are not included in table above.
(**) Loan portfolio classification is done in accordance with Basel II criterion.
(***) Financial Assets which are overdue or which have value loss are presented in terms of net values. Specific loan provision of TRY 961,471 Thousand belonging to loans given as of 31.12.2008 is netted off with loans extended to SMEs.

As of December 31, 2007	Neither past due nor impaired	Past due or individually impaired	Total
Receivables from Banks	1,212,409	-	1,212,409
Financial Assets at Fair Value Through Profit and Loss	485,763	-	485,763
Loans	16,883,792	176,364	17,060,156
Corporate Lending	2,960,373	61,899	3,022,272
SME Lending	9,949,091	47,229	9,996,320
Consumer Lending	3,870,480	67,236	3,937,716
Other	103,848	-	103,848
Financial Assets Available for Sale	8,538,654	-	8,538,654
Investments Held to Maturity	7,037,420	-	7,037,420

(*) Credit cards (TRY 274.350 Thousand) and loans for which the risk does not belong to the Bank (TRY 864.831 Thousand) are not included in the table above.
(**) Loan portfolio classification is made in accordance with Basel II criteria.
(***) Financial assets that are overdue or impaired are presented in net values. Specific loan provision of TRY (946,770) Thousand as of 31.12.2007 is netted of from SME lending.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

As of December 31, 2008	Less than 30 Days	Between 31 and 60 Days	Between 61 and 90 Days	Total
Loans and Receivables				
Corporate Loans	16,071	948	-	17,019
SME Loans	119,590	52,736	28,648	200,974
Consumer Loans	2,035	526	337	2,898
Credit Cards	36,463	12,904	2,170	51,537
Total	174,159	67,114	31,155	272,428

(*) Loans for which risk does not belong to the Bank are not included.

As of December 31, 2007	Less than 30 Days	Between 31 and 60 Days	Between 61 and 90 Days	Total
Loans and Receivables				
Corporate Loans	2,054	-	-	2,054
SME Loans	63,121	23,456	15,956	102,533
Consumer Loans	1,346	227	169	1,742
Other	-	-	-	-
Total	66,521	23,683	16,125	106,329

As at December 31, 2008, the fair value of collaterals held against the past due but not yet impaired loans amounts to TRY 1,828,069 Thousand. The net value and type of the collaterals is as follows:

Collateral Type	Net Value of Collateral
Real estate mortgage	973.058
Salary pledge,vehicle pledge and pledge of commercial undertaking	222.369
Financial collaterals (Cash, securities pledge, etc.)	50
Cheque, bills	72.594
Suretyship	243.466
Other	316.532
Total	1.828.069

(*) The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2008	31 December 2007
Corporate Loans	71,582	46,788
SME Loans	71,541	72,405
Consumer Loans	160	8
Other	401	245
Total	143,684	119,446

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk occurs when there is not sufficient amount of cash or cash flows to meet the cash outflow needs completely and on time. Liquidity risk may also occur when the market penetration is not enough and when the open positions cannot be closed timely at competitive prices due to barriers and break-ups at the markets.

The Bank uses domestic and foreign markets for its liquidity needs. Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (CBRT, ISE, Interbank money market, Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized balance sheets; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Bank's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

Analysis of financial liabilities by remaining contractual maturities:

As of December 31, 2008	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	27,936,638	10,517,345	2,232,509	495	-	(495,707)	40,191,280
Funds borrowed	595,930	192,483	609,098	913,527	878,072	(451,757)	2,737,353
Obligations under repurchase agreements	1,762,586	639,118	-	-	-	(11,260)	2,390,444
Total	30,295,154	11,348,946	2,841,607	914,022	878,072	(958,724)	45,319,077

As of December 31, 2007	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	22,654,114	7,532,709	945,874	971	-	(313,016)	30,820,652
Funds borrowed	379,942	118,683	243,366	801,394	436,350	(371)	1,979,364
Obligations under repurchase agreements	1,190,908	93,356	416,216	-	-	(25)	1,700,455
Total	24,224,964	7,744,748	1,605,456	802,365	436,350	(313,412)	34,500,471

Analysis of Bank's derivative financial instruments according to their remaining maturities:

As of December 31, 2008	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forward foreign currency transactions-buy	58,623	3,095	578	-	-	62,296
Forward foreign currency transactions-sell	58,154	3,157	599	-	-	61,910
Foreign currency swap transactions-buy	510,405	167,592	-	-	-	677,997
Foreign currency swap transactions-sell	485,582	148,162	-	-	-	633,744
Interest rate swap transactions-buy	-	-	-	460,754	-	460,754
Interest rate swap transactions-sell	-	-	-	410,046	-	410,046
Total	1,112,764	322,006	1,177	870,800	-	2,306,747

As of December 31, 2007	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forward foreign currency transactions-buy	1,521	-	508	-	-	2,029
Forward foreign currency transactions-sell	1,547	-	469	-	-	2,016
Foreign currency swap transactions-buy	719,422	-	-	-	-	719,422
Foreign currency swap transactions-sell	735,354	-	-	-	-	735,354
Interest rate swap transactions-buy	-	-	84,940	394,400	-	479,340
Interest rate swap transactions-sell	-	-	86,875	455,310	-	542,185
Total	1,457,844	-	172,792	849,710	-	2,480,346

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

As of December 31, 2008	Demand	Up to 1 Month	1-3 Months	3-12 Months	1 year to 5 years	Over 5 years	Undistributed	Total
Assets								
Cash and cash equivalents	342,975	1,966,988	-	-	-	-	-	2,309,963
Balances with Central Bank	422,598	767,644	1,345,744	255,975	5,030	-	341	2,797,332
Financial assets at fair value through profit and loss	12,318	680	1,782	18,384	5,751	8,124	862	47,901
Investment securities available-for-sale	108,795	8,849	158,519	929,066	971,943	280,389	11,328	2,468,889
Loans and advances to customers and financial institutions	926,620	3,810,747	2,986,061	9,157,484	7,221,125	1,761,414	62,166	25,925,617
Investments securities held to maturity	4,782	197,157	220,048	1,483,986	10,089,114	3,868,577	-	15,863,664
Other assets	248,066	887	98	2	78,288	-	1,440,362	1,767,703
Total assets	2,066,154	6,752,952	4,712,252	11,844,897	18,371,251	5,918,504	1,515,059	51,181,069
Liabilities and equity								
Customers and bank deposits	3,994,059	23,701,497	10,331,299	2,163,959	466	-	-	40,191,280
Funds provided from other financial institutions(**)	517,065	66,218	187,526	553,846	720,927	691,771	-	2,737,353
Obligations under repurchase agreements	-	1,756,673	472,346	161,425	-	-	-	2,390,444
Other liabilities(*)	1,679,819	126,240	5,591	8	22,153	-	4,028,181	5,861,992
Total liabilities and equity	6,190,943	25,650,628	10,996,762	2,879,238	743,546	691,771	4,028,181	51,181,069
Liquidity gap	(4,124,789)	(18,897,676)	(6,284,510)	8,965,659	17,627,705	5,226,733	(2,513,122)	-

As of December 31, 2007	Demand	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and over	Undistributed	Total
Total assets	1,408,234	5,360,014	3,552,074	9,410,146	14,493,641	4,937,308	1,117,365	40,278,782
Total liabilities and equity	4,667,267	19,352,222	7,620,763	2,882,247	821,415	466,451	4,468,417	40,278,782
Liquidity gap	(3,259,033)	(13,992,208)	(4,068,689)	6,527,899	13,672,226	4,470,857	(3,351,052)	-

(*) Shareholders' equity is presented in the "undistributed" column.
(**)The balance consists of funds provided from other financial institutions. The remaining part of the borrowings, which is loans borrowed, is presented in other liabilities.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

Net liquidity gap

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Market Risk

The Group has determined its market risk activities and taken the necessary actions in accordance with the Communiqué on "Internal Control and Risk Management System" published in the Official Gazette No. 24312 on February 8, 2001.

The Group's exposure to the market risk is measured and traced by the Standard Method. A study is performed to calculate the market risk according to the "Internal Method". Results of monthly measurement of market risk and weekly measurement of foreign currency risks are reported to the Group's Management. In addition, it is included in monthly or quarterly in legal reporting. In this context, the most important part of the market risk is the interest rate risk. In addition to this daily risk analysis report, daily market risk analysis report and weekly macro-economic risk analysis reports are prepared and presented to the Management.

Currency Risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

The Group's exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. In rare circumstances, when deemed necessary, foreign currency swap transactions are made with the banks.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the TRY against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

December 31, 2008	Change in currency rate in %	Effect on profit / loss
USD	10	(12,687)
EURO	10	(17,797)
Other	10	1,433

The Group's sensitivity to foreign currency rates have not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	EURO	USD	Other FC	Total
As of December 31, 2008				
Assets				
Cash and cash equivalents & balances with Central Bank	1,094,835	216,692	3,404	1,314,931
Due from other banks and financial institutions	1,755,922	206,599	105,452	2,067,973
Financial assets at fair value through profit and loss	841	34,924	841	36,606
Investment securities available-for-sale	457,066	321,400	-	778,466
Loans and advances to customers and financial institutions	2,891,343	3,748,473	3,881	6,643,697
Investments in associates	122,576	-	-	122,576
Investment securities held to maturity	1,237,658	1,691,788	-	2,929,446
Intangible assets	-	-	-	-
Other assets	37,458	67,053	48	104,559
Total assets	7,597,699	6,286,929	113,626	13,998,254
Liabilities				
Interbank deposits	119,594	130,300	25,713	275,607
Foreign currency deposits	7,203,664	5,672,937	85,140	12,961,741
Obligations under repurchase agreements	105,001	587,617	-	692,618
Funds provided from other financial institutions	850,435	469,063	6	1,319,504
Other liabilities	40,086	62,736	714	103,536
Total liabilities	8,318,780	6,922,653	111,573	15,353,006
Net on balance sheet position	(721,081)	(635,724)	2,053	(1,354,752)
Net off balance sheet position	480,235	596,127	10,966	1,087,328
Derivative financial assets	481,701	644,562	46,710	1,172,973
Derivative financial liabilities	1,466	48,435	35,744	85,645
Non-cash loans	1,279,756	2,855,520	58,908	4,194,184

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

	EURO	USD	Other FC	Total
As of December 31, 2007				
Total assets	4,073,680	4,248,710	62,319	8,384,709
Total liabilities	4,290,540	5,321,328	59,443	9,671,311
Net on balance sheet position	(216,860)	(1,072,618)	2,876	(1,286,602)
Net off balance sheet position	195,362	1,002,240	1,171	1,198,773
Derivative financial assets	195,362	1,003,806	1,171	1,200,339
Derivative financial liabilities	-	1,566	-	1,566
Non-cash loans	512,097	1,501,492	44,529	2,058,118

25. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Bank. Interest rate risk is calculated by including assets and liabilities and the general and specific interest rate risk tables within the standard method and it is taken into consideration as a part of the general market risk in the computation of Capital Adequacy Standard Ratio. The major priority of the Bank's risk management is to prevent from the effects of the interest rate volatility. All types of sensitivity analysis performed within the context is calculated by the risk management group and reported to the Asset-Liability Committee.

Work is performed regarding the interest income according to the macro economical indicators in the Bank's budget estimations and the effects of the market interest rate fluctuations on the financial position and cash flow are eliminated at the maximum level possible by means of target revisions. All resource costs of the Bank such as; TRY deposits, repurchase agreements, FC deposits are determined with the approval of the executive member appointed by the Board of Directors. Since the Bank prohibits interest mismatches and imposes limits, the Bank is not subject to a material interest rate risk exposure.

Interest rate sensitivity:

If interest rates were increased by 600 base points in TRY and 200 base points for FC and all other variables were held constant, the Group's:

- Profit for the year would decrease by TRY 252,907 Thousand. The major factor in this change is due to the assets of the Group with variable interest rates.
- The Shareholders' equity would decrease by TRY 80,214 Thousand. The major factor in this change is due to the market value of government bonds held in available for sale portfolio.
- Through these calculations, the value loss related to held for trading investments are presented in shareholder's equity instead of profit and loss.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

As of December 31, 2008	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest Bearing	Total
Assets							
Cash and cash equivalents	2,025,484	-	-	-	-	284,479	2,309,963
Balances with Central Bank	2,374,363	-	-	-	-	422,969	2,797,332
Financial assets at fair value through profit and loss	680	3,423	11,217	18,277	1,124	13,180	47,901
Investment securities available-for-sale	138,199	667,592	957,940	480,584	213,246	11,328	2,468,889
Loans and advances to customers and financial institutions	10,669,708	4,038,495	5,102,043	3,650,827	1,625,607	838,937	25,925,617
Investment securities held to maturity	4,283,500	5,879,244	2,217,074	2,022,431	1,461,415	-	15,863,664
Other assets	484,048	98	2	-	-	1,283,555	1,767,703
Total assets	19,975,982	10,588,852	8,288,276	6,172,119	3,301,392	2,854,448	51,181,069
Liabilities and equity							
Customer and bank deposits	23,701,497	10,331,299	2,163,959	466	-	3,994,059	40,191,280
Obligations under repurchase agreements	1,756,673	472,346	161,425	-	-	-	2,390,444
Funds provided from other financial institutions (**)	984,665	869,439	459,123	103,160	128,781	192,185	2,737,353
Other liabilities(*)	279,777	71	8	-	-	5,582,136	5,861,992
Total liabilities and equity	26,722,612	11,673,155	2,784,515	103,626	128,781	9,768,380	51,181,069
On balance sheet interest sensitivity gap-Long	-	-	5,503,761	6,068,493	3,172,611	-	14,744,865
On balance sheet interest sensitivity gap-Short	(6,746,630)	(1,084,303)	-	-	-	(6,913,932)	(14,744,865)
Off balance sheet interest sensitivity gap-Long	-	-	-	-	-	-	-
Off balance sheet interest sensitivity gap-Short	-	-	-	-	-	-	-
Total position	(6,746,630)	(1,084,303)	5,503,761	6,068,493	3,172,611	(6,913,932)	-

As of December 2007	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Non-interest Bearing	Total
Total assets	19,599,298	5,879,950	5,161,153	5,730,751	1,431,038	2,476,592	40,278,782
Total liabilities and equity	20,175,989	7,768,711	2,669,477	387,166	138,180	9,139,259	40,278,782

(*) Shareholders' equity is presented in the "non-interest bearing" column.
(**) The balance consists of funds provided from other financial institutions. The remaining part of the borrowings, which is loans borrowed, are presented in other liabilities.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

25. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy 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 bank operates in offshore markets. As of December 31, 2008, its capital adequacy ratio on an unconsolidated basis is above 12%.

Fair Value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

• The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
• The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
• The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

	Carrying amount		Fair value	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Financial assets				
Loans and advances	25,925,617	18,199,337	25,689,955	18,199,337
Investment securities available-for-sale	2,468,889	8,538,654	2,468,889	8,538,654
Investment securities held-to-maturity	15,863,664	7,037,420	15,880,539	7,037,420
	44,258,170	33,775,411	44,039,383	33,775,411
Financial liabilities				
Deposits from other banks	1,264,682	1,049,049	1,264,682	1,049,049
Customers' deposits	38,926,598	29,771,603	38,908,676	29,771,603
Other money market deposits	2,390,444	1,700,455	2,390,444	1,700,455
Funds borrowed	2,737,353	1,979,364	2,737,353	1,979,364
	45,319,077	34,500,471	45,301,155	34,500,471

26. SUBSEQUENT EVENTS

In accordance with Law No: 5083 "Monetary Unit of the Turkish Republic" (Law No: 5083), the name of the Turkish Republic's monetary unit and its sub-currency unit is changed to the New Turkish Lira and the New Turkish Cent, respectively. However, in accordance with the additional resolution of the Council of Ministers in regards to the order on the removal of the phrase "New" in the New Turkish Lira and the New Turkish Cent and Its Application Principles, the phrase "New" used in the Turkish Republic's monetary unit is removed both from New Turkish Lira and the New Turkish Cent as of January 1, 2009.