KPMG

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements As of and For the Year Ended 31 December 2008 with Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

27 March 2009

This report contains 2 pages of independent auditors' report and 50 pages of consolidated financial statements and notes to the consolidated financial statements.

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aktif Yatırım Bankası Anonim Şirketi:

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for qualified opinion:

We did not observe the counting of the physical inventories amounting to YTL 1,504 thousand as stated in Note 6 as at 30 May 2008, because this date was prior to the time we were initially engaged as auditors for the subsidiary acquired in 2008. We were unable to satisfy ourselves as to inventory quantities or condition by other audit procedures. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the consolidated financial statements for intangible assets and net profit for the year.

Qualified opinion

In our opinion, except for the effect on the consolidated financial statements of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2008, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the following matters:

a) The Bank has given the significant portion of non-cash loans to its related parties (Çalık Group Companies) as of balance sheet date.

27 March 2009
Istanbul, Turkey

KPMG Akis Bagımsız Denetim ve SMMM AŞ

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Balance Sheet
As of 31 December 2008

(Currency - In thousands of New Turkish Lira (“YTL”))

	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	*14*	54,499	22,996
Reserve deposits at Central Bank	*15*	4,897	619
Trading assets	*16*	854	505
Trade and other receivables	*17*	1,000	-
Inventories	*18*	1,288	-
Loans and advances to customers	*19*	105,523	75,796
Investment securities	*20*	50,197	-
Investment in associate	*21*	17,542	10,028
Property and equipment	*22*	2,572	593
Intangible assets	*23*	17,803	371
Deferred tax assets	*13*	230	-
Other assets	*24*	3,685	2,334
Total assets		**260,090**	**113,242**
LIABILITIES			
Trading liabilities	*16*	3	-
Trade and other payables	*25*	1,042	-
Obligations under repurchase agreements	*26*	1,528	35
Financial lease liabilities		137	-
Funds borrowed	*27*	75,698	34,961
Provisions	*28*	733	82
Deferred tax liabilities	*13*	2,624	38
Other liabilities	*29*	13,884	12,780
Total liabilities		**95,649**	**47,896**
EQUITY			
Share capital	*30*	138,663	44,663
Fair value reserve	*30*	142	-
Retained earnings		25,902	20,683
Total equity attributable to equity holders of the Bank		**164,707**	**65,346**
Minority interest		(266)	-
Total equity		**164,441**	**65,346**
Total liabilities and equity		**260,090**	**113,242**
Commitments and contingencies	*32*		

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

Consolidated Income Statement
For the year ended 31 December 2008

(Currency - In thousands of New Turkish Lira ("YTL"))

	Note	2008	2007
Interest income	*7*	16,757	11,207
Interest expense	*7*	(3,346)	(238)
Net interest income		**13,411**	**10,969**
Fees and commission income	*8*	3,000	2,298
Fees and commission expense	*8*	(180)	(24)
Net fee and commission income		**2,820**	**2,274**
Net trading income	*9*	1,659	92
Income from fare collection services	*10*	5,658	-
Cost of fare collection services	*10*	(2,471)	-
Other operating income		54	72
Operating income		**21,131**	**13,407**
Net impairment on financial assets	*19, 28*	(444)	-
Personnel expenses	*11*	(16,323)	(5,704)
Depreciation and amortisation	*22, 23*	(2,588)	(375)
Administrative expenses	*12*	(5,706)	(3,203)
Total operating expenses		**(25,061)**	**(9,282)**
Negative goodwill on acquisition of subsidiary	*6*	1,039	-
Share of profit of equity accounted investee	*21*	7,514	1,008
Profit before income tax		**4,623**	**5,133**
Income tax	*13*	330	(1,021)
Net profit for the year		**4,953**	**4,112**
Attributable to:			
Equity holders of the Bank		5,219	4,112
Minority interest		(266)	-
Net profit for the year		**4,953**	**4,112**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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

	Note	Share capital	Inflation adjustment to share capital	Fair value reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2007		**20,000**	**24,663**	**-**	**16,571**	**61,234**	**-**	**61,234**
Net profit for the year		-	-	-	4,112	4,112	-	4,112
Balance at 31 December 2007		**20,000**	**24,663**	**-**	**20,683**	**65,346**	**-**	**65,346**
Share capital increase	*30*	94,000	-	-	-	94,000	-	94,000
Net change in fair value available-for-sale financial assets, net of tax	*30*	-	-	142	-	142	-	142
Net profit for the year		-	-	-	5,219	5,219	(266)	4,953
Balance at 31 December 2008		**114,000**	**24,663**	**142**	**25,902**	**164,707**	**(266)**	**164,441**

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

Consolidated Cash Flow Statement
For the year ended 31 December 2008
(Currency - In thousands of New Turkish Lira ("YTL"))

	Note	2008	2007
Cash flows from operating activities			
Net profit for the year		4,953	4,112
Adjustments for:			
Depreciation and amortisation	*22, 23*	2,588	375
Net impairment on financial assets	*19, 28*	444	-
Net interest accrual on financial assets and liabilities		(747)	205
Share of profit of equity investee	*21*	(7,514)	(1,008)
Negative goodwill on acquisition of subsidiary	*6*	(1,039)	-
Gain on sale on property and equipment		(49)	(23)
Income tax	*13*	(330)	1,021
Operating profit / (loss) before changes in operating assets / liabilities		**(1,694)**	**4,682**
Change in reserve deposit at Central Bank		(4,278)	(362)
Change in trading assets		(346)	247
Change in trade and other receivables		950	-
Change in inventories		216	-
Change in loans and advances to customers		(28,316)	(30,744)
Change in other assets		2,836	(1,864)
Change in trade and other payables		(113)	-
Change in obligations under repurchase agreements		1,493	(155)
Change in other liabilities and provisions		1,304	10,678
Income tax paid		(353)	(1,073)
Net cash used in operating activities		**(28,301)**	**(18,591)**
Cash flows from investing activities			
Purchase of investment securities		(50,055)	-
Purchase of property and equipment	*22*	(2,168)	(186)
Proceeds from the sale of property and equipment		63	116
Purchase of intangible assets	*23*	(4,659)	(341)
Development expenditure	*23*	(581)	-
Acquisition of subsidiary, net of cash acquired	*6*	(15,696)	-
Net cash used in investing activities		**(73,096)**	**(411)**
Cash flows from financing activities			
Change in financial lease liabilities		137	-
Proceeds from funds borrowed		336,872	284,481
Repayment of borrowings		(298,109)	(252,583)
Proceeds from share capital increase	*30*	94,000	-
Net cash provided from financing activities		**132,900**	**31,898**
Net increase in cash and cash equivalents		**31,503**	**12,896**
Cash and cash equivalents on 1 January	*14*	22,996	10,100
Cash and cash equivalents on 31 December	*14*	**54,499**	**22,996**
Interest received		14,937	11,439
Interest paid		(2,273)	(265)

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

Notes to the consolidated financial statements

1. Corporate information

Aktif Yatırım Bankası Anonim Şirketi (the "Bank") was incorporated under the name of Çalık Yatırım Bankası A.Ş. in Turkey in July 1999. The Bank changed its name as Aktif Yatırım Bankası A.Ş. on 1 August 2008.

The Bank operates as an "investment bank" and is mainly involved in corporate services such as cash or non-cash, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers, but is not entitled to receive deposits from customers.

The head office of the Bank is located at Büyükdere Cad. No: 163 Zincirlikuyu / Istanbul, and the Bank has also two branches Istanbul.

On 8 May 2008, the Bank has established Çalık Yönetim Sistemleri A.Ş. ("ÇYS") with a 75% of ownership. ÇYS provides consultancy services in the issues of the evaluation, organisation and restructuring of the general management of the companies established or to be established, the alteration, project and quality management thereof, the strategic planning and the preparation of the feasibilities related thereto, the management of company systems, reduction of costs and company management, industrial relations, manpower planning, production management, productivity, strategic decisions, information technology, financial, accounting and commercial matters, human resources, acquisitions and mergers, quality development, risk management, information technology management and system development and evaluation, as well as preparing computer software and databases regarding these issues.

On 30 May 2008, ÇYS acquired 100% of E-Kent Elektronik Ücret Toplama A.Ş. ("E-Kent") which was established in 2002 to YTL 17,000 (see Note 6). E-Kent is a provider of high-technology solutions and services for modern urban management. E-Kent sells, installs and operates electronic fare collection solutions and electronic payment systems, and provides consulting services for planning and efficiency of public transport services. E-Kent is an electronic fare collection operating company, and currently operates services in four provinces of Turkey. E-Kent has tailored its systems to meet the individual customer requirements of various railway networks, municipalities, public transport companies, car parks, cultural parks, zoos and museums located in major cities in Turkey. E-Kent is a member of the International Association of Public Transport (UITP). E-Kent has 98% of ownership in E-Tik Elektronik Transfer Kup. Ltd. Şti. ("E-Tik").

The Bank and its consolidated subsidiaries are referred as the "Group" hereafter.

(Currency - In thousands of New Turkish Lira ("YTL"))

1. Corporate information *(continued)*

The Bank has cooperation with Şekerbank T.A.Ş. and Çalık Holding A.Ş. in their project of investing a foreign oriented bank in Çalık-Şeker Konsorsiyum Yatırım A.Ş. The share of the Bank in this company is 24%.

The main establishment purpose of Çalık-Şeker Konsorsiyum Yatırım A.Ş. is the transactions related with purchase of Bank Kombatare Tregtare in Albania.

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

	Place of incorporation	Effective shareholding and voting rights (%)	
		2008	2007
ÇYS	Turkey	75.0	-
E-Kent	Turkey	75.0	-
E-Tik	Turkey	73.5	-
Çalık-Şeker Konsorsiyum Yatırım A.Ş.	Turkey	24.0	24.0

ÇYS has been established with YTL 3,000 of registered capital. The share capital is registered to the Bank and GAP İnşaat Yatırım ve Dış Ticaret A.Ş. ("GAP İnşaat") with shareholding percentage of 75% and 25%, respectively. As at 31 December 2008, YTL 753 of capital commitments has not been paid by GAP İnşaat.

The Bank employs 160 people as of 31 December 2008 (31 December 2007 – 76).

2. Basis of preparation

2.1 Statement of compliance

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

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Accounting Standards, Financial Reporting Standards and other regulations on accounting and reporting standards promulgated by the Banking Regulation and Supervision Agency ("BRSA"). The consolidated subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with the regulations of Turkish Commercial Code and Tax Legislation.

The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira ("YTL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The accompanying consolidated financial statements as of 31 December 2008 are authorised for issue by the management on 27 March 2009. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

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

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

2. Basis of preparation *(continued)*

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

Key sources of estimation uncertainty

Allowances for credit losses

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Impairment and uncollectibility are measured and recognised individually for loans and receivables.

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Financial asset and liability classification

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

In classifying financial assets and liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.13.

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

The financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on International Accounting Standard ("IAS") No. 29 "Financial Reporting in Hyperinflationary Economies" as of 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current on the balance sheet date, and that corresponding figures for prior periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as of 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilisation in financial and monetary markets, decrease in interest rates and the appreciation of YTL against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006 as stated in International Standards Alert No. 2006/17 issued on 8 March 2006. Therefore, IAS 29 has not been applied to the accompanying financial statements starting from 1 January 2006.

3.2 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (Note 3.19).

(ii) Associate (equity accounted investee)

The Bank's investment in associate is subsidiary for under the equity method of accounting. This is entity in which the Bank has significant influence but not control and which are neither affiliate nor joint ventures of the Bank. The investment in subsidiary is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the subsidiary, less any impairment in value. The income statement reflects the Bank's share of the results of operations of the subsidiary. Where there has been a change recognised directly in the equity of a subsidiary, the Bank recognises its share of any changes and discloses this when applicable, in the statement of changes in equity.

The financial statements of the subsidiary as of and for the period ended 30 September 2008 are used for equity accounting. There is not any a significant transaction or event in the three months period to 31 December 2008.

The subsidiary's accounting policies conform to those by the Bank for like transactions and events.

(Currency - In thousands of New Turkish Lira ("YTL"))

3. Significant accounting policies

3.2 Basis of consolidation *(continued)*

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.3 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

	EUR / YTL (full)	USD / YTL (full)
31 December 2007	1.7227	1.1685
31 December 2008	2.1454	1.5180

3.4 Interest income / expense

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

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense presented in the consolidated income statement include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.5 Fees and commission

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

Other fees and commission income are recognised as the related services are provided.

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

3.6 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3. Significant accounting policies *(continued)*

3.7 Income from fare collection service

(i) Goods sold

Revenue from the sale of goods is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from the sale of goods is stated net of discounts and returns. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed on to the buyer and the amount of revenue can be measured reliably.

(ii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iii) Services

Revenue from services rendered is recognised in profit or loss as the service has been rendered.

3.8 Dividends

Dividend income is recognised when the right to receive income is established.

3.9 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

3.10 Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

3. Significant accounting policies *(continued)*

3.11 Financial assets and liabilities

Recognition

The Group initially recognises trade and other receivables, loans and advances to customers, held-to-maturity investment securities, trade and other payables, funds borrowed and customer accounts on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

Offsetting

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

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

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

3. Significant accounting policies *(continued)*

3.11 Financial assets and liabilities *(continued)*

Identification and measurement of impairment

On each balance sheet date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Since the Group’s loan portfolio does not consist of many transactions, the Group considers evidence of impairment at only specific asset level. All financial assets are assessed for specific impairment.

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets’ original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

3. Significant accounting policies *(continued)*

3.12 Cash and cash equivalents

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

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

3.13 Trading assets and liabilities

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

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

3.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.15 Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3. Significant accounting policies *(continued)*

3.16 Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances to customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as cash and cash equivalents, and the underlying asset is not recognised in the Group's consolidated financial statements.

Loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.17 Investment securities

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

(i) Held-to-maturity

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

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

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

3. Significant accounting policies *(continued)*

3.18 Property and equipment

Recognition and measurement

Items of property and equipment are restated for the effects of inflation to the end of 31 December 2005, less accumulated depreciation and impairment losses. Property equipment acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

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

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for as at 31 December 2008 and 2007 are as follows:

▪ machinery and equipment	4-8 years
▪ furniture and fixtures	4-8 years
▪ motor vehicles	5 years
▪ other fixed assets	4-50 years

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

3. Significant accounting policies *(continued)*

3.19 Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

Acquisition

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Service agreements

Service agreements acquired in a business combination are recognised at fair value at the acquisition date. The service agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the service agreements.

(iii) Software

Software acquired by the Group is restated for the effects of inflation to the end of 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

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

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

Amortisation is recognised in income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is 3 to 14 years.

3. Significant accounting policies *(continued)*

3.20 Leased assets – lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Group's balance sheet.

3.21 Impairment of non-financial assets

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

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

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.22 Provisions

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

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

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

3. Significant accounting policies *(continued)*

3.23 Employee benefits

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

i) Defined benefit plans

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

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

ii) Defined contribution plans

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

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

3.24 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.25 New standards and interpretations not yet adopted

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

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

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

3. Significant accounting policies *(continued)*

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

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

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

- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

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

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group’s 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group’s 2009 financial statements. However, it is not expected to have any impact on the consolidated financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group’s 2010 financial statements, are not expected to have an impact on the consolidated financial statements.

3. Significant accounting policies *(continued)*

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

- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for theses amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

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

4. Financial risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Group risk management policies in their specified areas. The Audit Committee has non-executive members and report regularly to the Board of Directors on their activities.

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

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Bank's credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was founded, the Bank has always managed its credit risks by taking a portfolio-logic approach. This sums up the Bank's basic risk management strategy.

In the first stage of the lending process, sectoral weightings are determined and firms that are seeking credit are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the Bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk

		Trade and other receivables		Loans and advances to customers		Investment debt securities (held-to-maturity portfolio)	
At 31 December	*Note*	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Carrying amount		**1,000**	**-**	**105,523**	**75,796**	**2,423**	**-**
Individually impaired							
- Non-performing financial assets		62	-	500	310	-	-
Gross amount		**62**	**-**	**500**	**310**	**-**	**-**
Allowance for impairment		(62)	-	(450)	(310)	-	-
Carrying amount	*17, 19*	**-**	**-**	**50**	**-**	**-**	**-**
Neither past due nor impaired							
- Low risk		-	-	53,099	36,272	-	-
- Medium risk		-	-	52,374	23,668	2,423	-
- High risk		-	-	-	-	-	-
- Non graded		1,000	-	-	15,856	-	-
Carrying amount		**1,000**	**-**	**105,473**	**75,796**	**2,423**	**-**
Carrying amount (amortised cost)	*17, 19, 20*	**1,000**	**-**	**105,523**	**75,796**	**2,423**	**-**

Impaired loans and advances to customers, trade and other receivables and investment securities

Impaired loans and advances to customers, trade and other receivables and investment debt securities are those for which the Group determines that it is probable that it will be unable to collect all principal and interest due to according to the contractual terms of the loans, receivables and investment debt securities.

Allowance for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan, receivable and investment debt security portfolio. This allowance is a specific loss component that relates to individually significant exposures.

Write-off policy

The Group writes off a loan, receivable or investment debt security balance, and any related allowances for impairment losses, when Group determines that the loan, receivable or security is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

	Trade and other receivables		Loans and advances to customers		Investment debt securities - HTM	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
31 December 2008						
Individually impaired	62	-	500	50	-	-
31 December 2007						
Individually impaired	-	-	310	-	-	-

(Currency - In thousands of New Turkish Lira (“YTL”))

4. Financial risk management *(continued)*

Credit risk *(continued)*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

Cash loans	31 December 2008	31 December 2007
Against non-performing loans	-	-
Against neither past due nor impaired		
- Pledge on property	1,822	135
- Cheques and notes	42,538	23,295
Total	**44,360**	**23,430**

The Bank also holds collateral against non-cash loans as stated below:

Non-cash loans	31 December 2008	31 December 2007
Cheques and notes	13,631	12,040
Pledge on property	5,325	-
Equity	1,588	-
	20,544	**12,040**

In addition to collateral stated above, the Bank holds customer sureties amounting to YTL 41,435 (31 December 2007 – YTL 50,105) against its cash loans and advances to customers and YTL 134,049 (31 December 2007 – YTL 119,056) against its non-cash loans.

Concentration risk by sector

The Bank monitors concentrations of credit risk for cash loans and advances to customers by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2008		31 December 2007	
Sector	Carrying amount	%	Carrying amount	%
Manufacturing	74,372	70	29,881	40
Trade	9,969	9	13,108	17
Construction	8,099	8	11,666	16
Financial institutions	3,362	3	19,034	25
Transportation and communication	1,620	2	131	-
Energy	950	1	952	1
Real estate	944	1	-	-
Other	6,207	6	1,024	1
	105,523	**100**	**75,796**	**100**

(Currency - In thousands of New Turkish Lira (“YTL”))

4. Financial risk management *(continued)*

Credit risk *(continued)*

Concentration risk by sector (continued)

An analysis of concentrations of credit risk for non-cash loans and advances to customers at the reporting date is shown below:

	31 December 2008		31 December 2007	
Sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Real estate	78,148	22	14,186	9
Manufacturing	75,601	22	51,615	34
Construction	53,242	15	35,595	23
Trade	35,718	10	25,392	16
Energy	12,747	4	14,417	9
Transportation and communication	10,600	3	-	-
Financial institutions	7,750	2	14,075	9
Other	76,798	22	11	-
	350,604	**100**	**155,291**	**100**

Trade and other receivables are due from several private sector companies and city municipalities. Investment securities (held-to-maturity portfolio) are corporate bonds.

Concentration risk by location

The Group’s total risk for loans and advances to customers, trade and other receivables and investment debt securities (held-to-maturity portfolio) is concentrated on Turkey.

Trading assets and investment securities (available-for-sale portfolio)

The Group held trading assets, investment securities (available-for-sale portfolio) including derivative assets of YTL 48,628 (31 December 2007: YTL 505). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	**31 December 2008**	**31 December 2007**
Government bonds and treasury bills			
- Rated BB- (trading portfolio)	*16*	854	467
- Rated BB- (available-for-sale portfolio)	*20*	40,274	-
Corporate bonds			
- Rated B (available-for-sale portfolio)	*20*	7,500	-
Derivative assets:			
- Bank and financial institution counterparties	*16*	-	38
Fair value and carrying amount		**48,628**	**505**

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group funds its short-term liquidity with interbank. In the case of long-term liquidity need, the Bank utilises capital market instruments. Additionally, the Bank also funds itself from the domestic market when it needs additional funds.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to short-term funds borrowed. For this purpose net liquid assets are considered as including cash and cash equivalents and trading debt securities for which there is an active and liquid market less any short-term funds borrowed and commitments. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the BRSA.

	2008	**2007**
On 31 December	497%	241%
Average for the year	188%	604%
Maximum for the year	420%	1,470%
Minimum for the year	114%	241%

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2008									
Non-derivative liabilities									
Trade and other payables	*25*	1,042	(1,042)	-	(35)	(262)	-	-	(745)
Obligations under repurchase agr.	*26*	1,528	(1,528)	-	(1,528)	-	-	-	-
Financial lease liabilities		137	(137)	-	(8)	(16)	(80)	(33)	-
Funds borrowed	*27*	75,698	(77,209)	-	(16,524)	(25,774)	(33,423)	(1,488)	-
Current accounts(*)	*29*	10,589	(10,589)	(10,589)	-	-	-	-	-
Derivative financial instruments									
Outflow	*16*	3	(1,713)	-	(1,713)	-	-	-	-
Inflow	*16*	-	1,714	-	1,714	-	-	-	-
		88,997	**(90,504)**	**(10,589)**	**(18,094)**	**(26,052)**	**(33,503)**	**(1,521)**	**(745)**

(*) Included in other liabilities.

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Liquidity risk *(continued)*

Residual contractual maturities of financial liabilities *(continued)*

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2007									
Non-derivative liabilities									
Obligations under repurchase agr.	*26*	35	(35)	-	(35)	-	-	-	-
Funds borrowed	*27*	34,961	(35,364)	-	(25,669)	-	(9,695)	-	-
Current accounts(*)	*29*	9,449	(9,449)	(9,449)	-	-	-	-	-
Derivative financial instruments									
Outflow	*16*	-	(3,579)	-	(3,579)	-	-	-	-
Inflow	*16*	(38)	3,506	-	3,506	-	-	-	-
		44,407	**(44,921)**	**(9,449)**	**(25,777)**	**-**	**(9,695)**	**-**	**-**

(*) Included in other liabilities.

The table above shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity.

The gross nominal inflow / (outflow) disclosed in the table above is the contractual, undiscounted cash flow on the financial liability or commitment.

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in Asset and Liability Committee ("ALCO").

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Standard Method.

A summary of the Standard Method position of the Group's trading portfolios on 31 December 2008 and 2007 and during the year is as follows:

	On 31 December	Average	Maximum	Minimum
2008				
Foreign currency risk	400	45	105	18
Interest rate risk	16,038	275	1,212	1
	16,438	**320**	**1,317**	**19**
2007				
Foreign currency risk	300	8,850	16,250	175
Interest rate risk	200	50	25	38
	500	**8,900**	**16,275**	**213**

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

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

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2008									
Cash and cash equivalents	*14*	54,499	-	2,520	51,979	-	-	-	-
Reserve deposits at Central Bank	*15*	4,897	4,897	-	-	-	-	-	-
Trade and other receivables	*17*	1,000	110	-	827	63	-	-	-
Loans and advances to customers	*19*	105,523	-	-	101,718	2,823	952	30	-
Investment securities - AFS	*20*	47,774	-	-	-	-	-	47,774	-
Investment securities - HTM	*20*	2,423	-	-	-	-	-	2,423	-
		216,116	**5,007**	**2,520**	**154,524**	**2,886**	**952**	**50,227**	**-**
Trade and other payables	*25*	1,042	-	-	297	-	-	-	745
Obligations under repurchase agr.	*26*	1,528	-	-	1,528	-	-	-	-
Financial lease liabilities		137	-	-	24	25	55	33	-
Funds borrowed	*27*	75,698	-	-	42,103	12,866	19,723	1,006	-
		78,405			**43,952**	**12,891**	**19,778**	**1,039**	**745**
Interest rate gap		**137,711**	**5,007**	**2,520**	**110,572**	**(10,005)**	**(18,826)**	**49,188**	**(745)**

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2007									
Cash and cash equivalents	*14*	22,996	-	939	22,057	-	-	-	-
Reserve deposits at Central Bank	*15*	619	619	-	-	-	-	-	-
Loans and advances to customers	*19*	75,796	-	-	65,657	9,662	134	343	-
		99,411	**619**	**939**	**87,714**	**9,662**	**134**	**343**	**-**
Obligations under repurchase agr.	*26*	35	-	-	35	-	-	-	-
Funds borrowed	*27*	34,961	-	-	25,582	9,379	-	-	-
		34,996	**-**	**-**	**25,617**	**9,379**	**-**	**-**	**-**
Interest rate gap		**64,415**	**619**	**939**	**62,097**	**283**	**134**	**343**	**-**

Interest rate sensitivity

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	Profit or loss		Equity	
At 31 December 2008	**100 bp parallel increase**	**100 bp parallel decrease**	**100 bp parallel increase**	**100 bp parallel decrease**
Trading securities	(8)	8	(8)	8
Investment securities – available-for-sale	-	-	(411)	419
	(8)	**8**	**(419)**	**427**

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Market risk *(continued)*

Interest rate sensitivity (continued)

	Profit or loss		Equity	
At 31 December 2007	**100 bp parallel increase**	**100 bp parallel decrease**	**100 bp parallel increase**	**100 bp parallel decrease**
Trading securities	(2)	2	(2)	2
Floating rate financial liabilities	(2)	2	(2)	2
	(4)	**4**	**(4)**	**4**

Summary of average interest rates

As of 31 December 2008 and 2007, the summary of average interest rates for different assets and liabilities are as follows:

	2008			2007		
	Euro	**USD**	**YTL**	**Euro**	**USD**	**YTL**
Assets						
Cash and cash equivalents	1.80	0.06	14.97	3.00	4.33	16.41
Reserve deposits at Central Bank	-	0.15	-	-	1.95	-
Trading assets	-	-	16.5	-	-	16.23
Loans and advances to customers	11.37	11.96	26.35	6.85	7.32	19.60
Investment securities - AFS	-	8.50	16.52	-	-	-
Investment securities - HTM	-	8.50	-	-	-	-
Liabilities						
Obligations under repurchase agreements	-	-	14.84	-	-	14.71
Financial lease liabilities	-	-	18.30	-	-	-
Funds borrowed	5.87	4.81	23.17	4.72	6.53	16.56

Operational risk

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

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Foreign currency risk

	Euro	USD	JPY	Other	Total
31 December 2008					
Cash and cash equivalents	3,881	21,104	8	325	25,318
Reserve deposits at Central Bank	-	4,897	-	-	4,897
Loans and advances to customers	16,250	27,507	-	-	43,757
Trade and other receivables	39	-	-	-	39
Investment securities - AFS	-	7,500	-	-	7,500
Investment securities - HTM	-	2,423	-	-	2,423
Other assets	15	33	-	-	48
Trade and other payables	829	-	-	-	829
Funds borrowed	(19,587)	(53,811)	-	-	(73,398)
Other liabilities	(227)	(9,002)	(1)	(8)	(9,238)
Net balance sheet long position	**1,200**	**651**	**7**	**317**	**2,175**
Forward exchange contracts	-	197	-	(1,714)	(1,517)
Net long position	**1,200**	**848**	**7**	**(1,397)**	**658**

	Euro	USD	JPY	Other	Total
31 December 2007					
Cash and cash equivalents	4,644	8,634	4	125	13,407
Reserve deposits at Central Bank	-	619	-	-	619
Loans and advances to customers	4,317	13,314	-	-	17,631
Other assets	-	23	-	-	23
Funds borrowed	(8,626)	(10,547)	-	-	(19,173)
Other liabilities	(368)	(8,806)	-	(7)	(9,181)
Net balance sheet long position	**(33)**	**3,237**	**4**	**118**	**3,326**
Forward exchange contracts	-	(3,506)	-	-	(3,506)
Net short position	**(33)**	**(269)**	**4**	**118**	**(180)**

(Currency - In thousands of New Turkish Lira ("YTL"))

4. Financial risk management *(continued)*

Foreign currency risk *(continued)*

The following major exchange rates applied during the year ended 31 December 2008 and 2007:

	Average rate		Balance sheet date	
YTL	**2008**	**2007**	**31 December 2008**	**31 December 2007**
USD	1.2976	1.2930	1.5180	1.1685
Euro	1.8949	1.7768	2.1454	1.7227

Sensitivity analysis

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

31 December 2008	**Equity**	**Profit or loss**
Euro	120	120
USD	176	85
Other currencies	(139)	(139)
	157	**66**

31 December 2007	**Equity**	**Profit or loss**
Euro	(3)	(3)
USD	(27)	(27)
Other currencies	12	12
	(18)	**(18)**

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

Capital management

The Bank's lead regulator, BRSA sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements of BRSA requires the Bank to maintain an 8% ratio of total capital to total risk-weighted assets.

As of 31 December 2008, the Bank's capital adequacy ratio is 35.64% (31 December 2007 – 42.19%).

(Currency - In thousands of New Turkish Lira ("YTL"))

5. Financial assets and liabilities

Accounting classification and fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Group expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values.

	Note	Trading	Loans and receivables	Available -for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2008								
Cash and cash equivalents	*14*	-	54,499	-	-	-	54,499	54,499
Reserve deposits at Central Bank	*15*	-	4,897	-	-	-	4,897	4,897
Trading assets	*16*	854	-	-	-	-	854	854
Trade and other receivables	*17*	-	1,000	-	-	-	1,000	1,000
Loans and advances to customers	*19*	-	105,523	-	-	-	105,523	105,523
Investment securities - AFS	*20*	-	-	47,774	-	-	47,774	47,774
Investment securities -HTM	*20*	-	-	-	2,423	-	2,423	1,875
		854	**165,919**	**47,774**	**2,423**	**-**	**216,970**	**216,422**
Trading liabilities	*16*	3	-	-	-	-	3	3
Trade and other payables	*25*	-		-	-	1,042	1,042	1,042
Obligations under rep. agr.	*26*	-	-	-	-	1,528	1,528	1,528
Financial lease liabilities		-	-	-	-	137	137	137
Funds borrowed	*27*	-	-	-	-	75,698	75,698	75,698
		3	**-**	**-**	**-**	**78,405**	**78,408**	**78,408**

	Note	Trading	Loans and receivables	Available -for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2007								
Cash and cash equivalents	*14*	-	22,996	-	-	-	22,996	22,996
Reserve deposits at Central Bank	*15*	-	619	-	-	-	619	619
Trading assets	*16*	505	-	-	-	-	505	505
Loans and advances to customers	*19*	-	75,796	-	-	-	75,796	75,796
		505	**99,411**	**-**	**-**	**-**	**99,916**	**99,916**
Obligations under rep. agr.	*26*	-	-	-	-	35	35	35
Funds borrowed	*27*	-	-	-	-	34,961	34,961	34,961
		-	**-**	**-**	**-**	**34,996**	**34,996**	**34,996**

(Currency - In thousands of New Turkish Lira (“YTL”))

6. Acquisition of subsidiary

On 30 May 2008, the Bank’s subsidiary, ÇYS acquired all of the shares in E-Kent for YTL 17,000 in cash.

E-Kent is a provider of high-technology solutions and services for modern urban management. E-Kent sells, installs and operates electronic fare collection solutions and electronic payment systems, and provides consulting services for planning and efficiency of public transport services. E-Kent is an electronic fare collection operating company, and currently operates services in four provinces of Turkey. E-Kent has tailored its systems to meet the individual customer requirements of various railway networks, municipalities, public transport companies, car parks, cultural parks, zoos and museums located in major cities in Turkey. In the seven months to 31 December 2008 the subsidiary contributed loss of YTL 1,058. If the acquisition had occurred on 1 January 2008, management estimates that consolidated profit before income tax for the year would have been YTL 4,656. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2008.

	Note	**Pre-acquisition carrying amounts**	**Fair value adjustments**	**Recognised values on acquisition**
Property and equipment, net	*22*	452	-	452
Intangible assets, net	*23*	217	13,936	14,153
Inventories		1,504	-	1,504
Trade and other receivables		1,950	-	1,950
Other assets		3,944	-	3,944
Cash and cash equivalents		1,304	-	1,304
Deferred tax assets	*13*	26	(2,787)	(2,761)
Loans and borrowings		(901)	-	(901)
Trade and other payables		(1,155)	-	(1,155)
Other liabilities		(451)	-	(451)
Net identifiable assets and liabilities		**6,890**	**11,149**	**18,039**
Negative goodwill on acquisition				(1,039)
Consideration paid, satisfied in cash				17,000
Cash acquired				(1,304)
Net cash outflow				**15,696**

Pre-acquisition carrying amounts were determined based on applicable IFRS immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values.

(Currency - In thousands of New Turkish Lira ("YTL"))

7. Net interest income

	2008	2007
Interest income		
Cash and cash equivalents	1,069	2,451
Loans and advances to customers	14,576	8,718
Other	1,112	38
Total interest income	**16,757**	**11,207**
Interest expense		
Funds borrowed	3,098	193
Other	248	45
Total interest expense	**3,346**	**238**
Net interest income	**13,411**	**10,969**

8. Net fee and commission income

	2008	2007
Fee and commission income		
Financial guarantee contracts issued	2,624	1,933
Other	376	365
Total fee and commission income	**3,000**	**2,298**
Fee and commission expense		
Other	180	24
Total fee and commission expense	**180**	**24**
Net fee and commission income	**2,820**	**2,274**

9. Net trading income

	2008	2007
Foreign exchange	1,514	(36)
Fixed income	145	128
Total	**1,659**	**92**

(Currency - In thousands of New Turkish Lira ("YTL"))

10. Income from / (cost of) fare collection services

	30 May – 31 December 2008
Sales	1,404
Commissions	4,055
Services	213
Gross revenues	**5,672**
Sales returns	(11)
Sales discounts	(3)
Net revenues	**5,658**
Cost of sales	(2,471)
Gross profit	**3,187**

11. Personnel expenses

	2008	2007
Wages and salaries	14,516	5,193
Compulsory social security obligations	1,104	359
Employee termination indemnity and vacation pay liability	289	24
Other	414	128
Total	**16,323**	**5,704**

(Currency - In thousands of New Turkish Lira ("YTL"))

12. Administrative expenses

	2008	2007
Rent expenses	1,017	437
Expenses on vehicles	902	350
Communication expenses	480	254
Taxes and dues other than on income	472	214
Travelling expenses	440	45
Publicity expenses	422	85
Consultancy expenses	379	211
Subscription expenses	375	450
Software maintenance expenses	314	191
Maintenance expenses	312	229
Reuters expenses	203	185
Representation expenses	155	92
Others	235	460
Total	**5,706**	**3,203**

13. Taxation

General information

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

In Turkey, effective from 1 January 2006 corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

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

(Currency - In thousands of New Turkish Lira ("YTL"))

13. Taxation *(continued)*

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

	31 December 2008	31 December 2007
Income tax liability	188	952
- *Tax liability of the subsidiary at the acquisition date*	*78*	-
- *Current tax liability*	*110*	*952*
Prepaid income tax	(353)	(1,010)
(Prepaid taxes) / Income taxes payable	**(165)**	**(58)**

For the year ended 31 December 2008 and 2007, the income tax expense recognised in income statement and income tax recognised directly in equity are as follows:

Recognised in income statement

	2008	2007
Current year tax expense	(110)	(952)
Deferred tax	440	(69)
- *Origination and reversal of temporary differences*	*285*	*(69)*
- *Tax loss carry-forwards*	*155*	-
Total income tax	**330**	**(1,021)**

Reconciliation of effective tax rate

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

	2008	2007
Profit before income tax	4,623	5,133
Income tax using the domestic corporation tax rate 20% (2007 – 20%)	(925)	(1,027)
Non-deductible expenses	(176)	(196)
Tax exempt income	1,639	202
Permanent differences	(208)	-
Total income tax in the income statement	**330**	**(1,021)**

The effective income tax rate for 2008 is (7) % (2007 – 20%).

Income tax recognised directly in equity

	2008	2007
Available-for-sale investment securities	(35)	-
	(35)	**-**

(Currency - In thousands of New Turkish Lira ("YTL"))

13. Taxation *(continued)*

Deferred tax

Recognised deferred tax assets and liabilities

The deferred tax included in the balance sheet and recognised in profit or loss and in equity are as follows:

	31 December 2008			31 December 2007		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Available-for-sale investment securities	183	-	183	-	-	-
Tax loss carry-forwards	155	-	155	-	-	-
Retirement pay liability	15	-	15	6	-	6
Unused vacation liability	66	-	66	10	-	10
Unearned income	-	-	-	12	-	12
Property, equipment and intangible assets	-	(2,859)	(2,859)	-	(66)	(66)
Other	46	-	46	-	-	-
Deferred tax assets / (liabilities)	**465**	**(2,859)**	**(2,394)**	**28**	**(66)**	**(38)**

Reflected in the consolidated balance sheet as follows:

	31 December 2008	31 December 2007
Deferred tax assets	230	-
Deferred tax liabilities	(2,624)	(38)
	(2,394)	**(38)**

Unrecognised deferred tax assets

	31 December 2008	31 December 2007
Tax losses	146	-
	146	**-**

The tax losses relate to ÇYS and expire in 2013. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which ÇYS can utilise the benefits therefrom.

(Currency - In thousands of New Turkish Lira ("YTL"))

13. Taxation *(continued)*

Deferred tax *(continued)*

Movements in temporary differences during the year

31 December 2008	**Opening balance**	**Effect of acquisition of subsidiary (Note 6)**	**Recognised in profit or loss**	**Recognised in equity**	**Closing balance**
Available-for-sale investment securities	-	-	218	(35)	183
Tax loss carry-forwards	-	-	155	-	155
Retirement pay liability	6	5	4	-	15
Unused vacation liability	10	10	46	-	66
Unearned income	12	-	(12)	-	-
Property, equipment and intangible assets	(66)	(2,815)	22	-	(2,859)
Other	-	39	7	-	46
	(38)	**(2,761)**	**440**	**(35)**	**(2,394)**

31 December 2007	**Opening balance**	**Effect of acquisition of subsidiary**	**Recognised in profit or loss**	**Recognised in equity**	**Closing balance**
Retirement pay liability	7	-	(1)	-	6
Unused vacation liability	5	-	5	-	10
Unearned income	15	-	(3)	-	12
Property, equipment and intangible assets	4	-	(70)	-	(66)
Other	-	-	-	-	-
	31	**-**	**(69)**	**-**	**(38)**

(Currency - In thousands of New Turkish Lira ("YTL"))

14. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash and balances with Central Bank	6,440	650
- Cash on hand	*797*	*214*
- Balances with Central Bank	*5,643*	*436*
Placements with other banks	47,987	21,046
Other money market placements	-	1,300
Other	72	-
Total	**54,499**	**22,996**

15. Reserve deposits at Central Bank

	31 December 2008	31 December 2007
Foreign currency	4,897	619
	4,897	**619**

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

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in YTL and USD or EUR at the rates of 6% and 9%, respectively as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (31 December 2007 – 6% for YTL and 11% for USD or EUR).

As of 31 December 2008, the interest rates applied for YTL and USD reserve deposits by the Central Bank are 12.00% for YTL reserve deposits. As of 31 December 2008, foreign currency reserve deposits are non-interest earning (31 December 2007 – 12.52% for YTL and 2.40% for foreign currency), respectively.

(Currency - In thousands of New Turkish Lira ("YTL"))

16. Trading assets and liabilities

Trading assets

	31 December 2008	31 December 2007
Trading securities		
- Government bonds and treasury bills	854	467
Derivative assets		
- Foreign exchange	-	38
	854	**505**

Trading liabilities

	31 December 2008	31 December 2007
Derivative liabilities		
- Foreign exchange	3	-
	3	**-**

As of 31 December 2008, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

YTL 854 of trading debt securities pledged under repurchase agreements as of 31 December 2008 (31 December 2007 – YTL 39).

As of 31 December 2008 and 2007, all trading debt securities have fixed interest rates.

On the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

	31 December 2008	31 December 2007
Forward foreign exchange contracts - buy	1,713	-
Forward foreign exchange contracts - sell	1,714	-
Swap foreign exchange contracts – buy	-	3,579
Swap foreign exchange contracts – sell	-	3,506

17. Trade and other receivables

	31 December 2008
Receivables from customers, gross	970
- Receivables from customers, gross	*1,032*
- Less impairment for receivables from customers	*(62)*
Cheques receivable	8
Other receivable	22
	1,000

There is not any impairment loss for trade and other receivables for the period from 30 May to 31 December 2008.

(Currency - In thousands of New Turkish Lira ("YTL"))

18. Inventories

	31 December 2008
Trading goods	1,288
	1,288

19. Loans and advances to customers

As of 31 December 2008 and 2007, all the loans and advances to customers are at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	31 December 2008			31 December 2007		
Corporate customers:						
- Finance leases	349	-	349	608	-	608
- Other lending	105,624	(450)	105,174	75,498	(310)	75,188
	105,973	**(450)**	**105,523**	**76,106**	**(310)**	**75,796**

Allowance for impairment

	31 December 2008	31 December 2007
Balance on 1 January	310	310
Impairment loss for the year		
- Charge for the year	140	-
- Recoveries	-	-
Balance on 31 December	**450**	**310**

Finance lease receivables

Loans and advances to customers include the following finance lease receivables.

	31 December 2008	31 December 2007
Gross investment in finance leases, receivable:		
- Less than one year	363	366
- Between one and five years	30	387
	393	**753**
Unearned future income on finance leases	(44)	(145)
Net investment in finance leases	**349**	**608**
The net investment in finance leases comprises:		
- Less than one year	320	265
- Between one and five years	29	343
	349	**608**

(Currency - In thousands of New Turkish Lira ("YTL"))

20. Investment securities

	31 December 2008			31 December 2007
	Interest rate %	**Latest maturity**	**Carrying amount**	**Carrying amount**
Held-to-maturity investment securities				
- Corporate bonds	8.5	2012	2,423	-
Available-for-sale investment securities				
- Government bonds	15.0	2010	40,274	-
- Corporate bonds	8.5	2012	7,500	-
			50,197	**-**

On 6 August 2008, 3 October 2008 and 14 November 2008, the Bank purchased with a nominal value of USD 10,000,000 of corporate bonds of Çalık Holding A.Ş. which is the main shareholder of the Bank. The Bank classified USD 8,000,000 of these bonds to available-for-sale investment securities and USD 2,000,000 to held-to-maturity investment securities. The bonds have a maturity of 5 March 2012 and semi-annual coupon payments with 8.50% of interest.

21. Investment in associate

The Bank has 24% interest in Çalık-Şeker Konsorsiyum Yatırım A.Ş. (31 December 2007 – 24%). The following table illustrates the summarised financial information of the Bank's investment in Çalık-Şeker Konsorsiyum Yatırım A.Ş.:

	31 December 2008	31 December 2007
Share of the Group in the associate's balance sheet		
Assets	466,658	301,248
Liabilities	(449,116)	(291,220)
Net assets	**17,542**	**10,028**

The share of the associate's profit for the year is YTL 7,514 (2007 – YTL 1,008).

(Currency - In thousands of New Turkish Lira ("YTL"))

22. Property and equipment

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Other fixed assets	Total
Cost						
Balance on 1 January 2007	807	657	757	260	13	2,494
Additions	126	42	18	-	-	186
Disposals	(5)	(2)	-	(260)	-	(267)
Balance on 31 December 2007	**928**	**697**	**775**	**-**	**13**	**2,413**
Balance on 1 January 2008	928	697	775	-	13	2,413
Acquisition through business combination (Note 6)	231	86	27	108	-	452
Additions	1,187	569	411	1	-	2,168
Disposals	-	(6)	-	(10)	-	(16)
Balance on 31 December 2008	**2,346**	**1,346**	**1,213**	**99**	**13**	**5,017**
Depreciation and impairment						
Balance on 1 January 2007	618	401	503	140	11	1,673
Depreciation for the year	86	104	102	29	-	321
Disposals	(3)	(2)	-	(169)	-	(174)
Balance on 31 December 2007	**701**	**503**	**605**	**-**	**11**	**1,820**
Balance on 1 January 2008	701	503	605	-	11	1,820
Depreciation for the year	280	160	161	26	-	627
Disposals	-	(2)	-	-	-	(2)
Balance on 31 December 2008	**981**	**661**	**766**	**26**	**11**	**2,445**
Carrying amounts						
Balance on 1 January 2007	189	256	254	120	2	821
Balance on 31 December 2007	227	194	170	-	2	593
Balance on 31 December 2008	1,365	685	447	73	2	2,572

(Currency - In thousands of New Turkish Lira ("YTL"))

23. Intangible assets

	Software	Rights	Develop-ment costs	Total
Cost				
Balance on 1 January 2007	1,780	-	-	1,780
Additions	341	-	-	341
Disposals	-	-	-	-
Balance on 31 December 2007	**2,121**	**-**	**-**	**2,121**
Balance on 1 January 2008	2,121	-	-	2,121
Acquisition through business combination (Note 6)	-	14,153	-	14,153
Additions	1,014	3,645	-	4,659
Internally developed	-	-	581	581
Disposals	(380)	-	-	(380)
Balance on 31 December 2008	**2,755**	**17,798**	**581**	**21,134**
Amortisation				
Balance on 1 January 2007	1,696	-	-	1,696
Amortisation for the year	54	-	-	54
Disposals	-	-	-	-
Balance on 31 December 2007	**1,750**	**-**	**-**	**1,750**
Balance on 1 January 2008	1,750	-	-	1,750
Amortisation for the year	564	1,397	-	1,961
Disposals	(380)	-	-	(380)
Balance on 31 December 2008	**1,934**	**1,397**	**-**	**3,331**
Carrying amounts				
Balance on 1 January 2007	84	-	-	84
Balance on 31 December 2007	371	-	-	371
Balance on 31 December 2008	821	16,401	581	17,803

24. Other assets

	31 December 2008	31 December 2007
Receivables from Clearing House	1,576	1,717
Prepaid expenses	732	340
Advances given	702	-
Deferred VAT	407	-
Prepaid taxes (Note 13)	165	58
Others	103	219
	3,685	**2,334**

(Currency - In thousands of New Turkish Lira ("YTL"))

25. Trade and other payables

	31 December 2008
Deposits and guarantees taken	745
Payables to suppliers	258
Other liabilities	39
	1,042

26. Obligations under repurchase agreements

	31 December 2008	31 December 2007
Obligations under repurchase agreements	1,528	35
	1,528	**35**

YTL 854 of trading debt securities pledged under repurchase agreements as of 31 December 2008 (31 December 2007 – YTL 39).

27. Funds borrowed

	31 December 2008	31 December 2007
Domestic banks – YTL	2,437	15,788
Domestic banks – Foreign currency	25,652	2,348
Foreign banks – Foreign currency	47,609	16,825
	75,698	**34,961**

28. Provisions

	31 December 2008	31 December 2007
Employee termination benefits	76	33
Vacation pay liability	330	49
Provision for non-cash loans	304	-
Other	23	-
	733	**82**

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

	2008	2007
On 1 January	33	35
Effect of acquisition of subsidiary	25	-
Increase / (decrease) during the year	58	(2)
Paid	(40)	-
On 31 December	**76**	**33**

(Currency - In thousands of New Turkish Lira ("YTL"))

28. Provisions *(continued)*

Employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 2.18 and YTL 2.03 on 31 December 2008 and 2007, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the financial statements as of 31 December 2008 and 2007, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the balance sheet date.

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

	31 December 2008	31 December 2007
Discount rate	12%	11%
Expected rates of salary/limit increases	6.26%	5.71%
Estimated rate of obtaining right for employee termination indemnity	87%	85%

Vacation pay liability

The movement in provision for vacation pay liability is as follows:

	2008	2007
On 1 January	49	23
Effect of acquisition of subsidiary	52	-
Increase / (decrease) during the year	231	26
Paid	(2)	-
On 31 December	**330**	**49**

29. Other liabilities

	31 December 2008	31 December 2007
Customer accounts	10,589	9,449
Payables to Clearing House	1,576	1,757
Taxes and due payable	973	423
Transitory accounts	285	694
Payables to compulsory government funds	85	12
Other	376	445
	13,884	**12,780**

The Bank is not entitled to collect deposits. Current accounts represent the current balances of loan customers.

(Currency - In thousands of New Turkish Lira ("YTL"))

30. Capital and reserves

	31 December 2008	31 December 2007
Number of common shares, YTL 1,000 (in full YTL), par value (Authorised and issued)	114,000	20,000

Share capital and share premium

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

	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Çalık Holding A.Ş.	112,300	98.51	18,300	91.5
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	900	0.78	900	4.50
Ahmet Çalık	400	0.35	400	2.00
Mahmut Çalık	200	0.18	200	1.00
Ali Akbulut	200	0.18	200	1.00
Total paid-in-capital	**114,000**	**100.00**	**20,000**	**100.00**
Restatement effect	24,663		24,663	
Total share capital	**138,663**		**44,663**	

According to the Board of Directors' decision dated 16 December 2008 and numbered 682, the Bank increased its share capital from 20,000 YTL to 114,000 YTL. The share capital increase was totally paid by Çalık Holding A.Ş.

Fair value reserve

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

Legal reserves

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

As of 31 December 2008, the Bank has YTL 2,130 of legal reserves in its statutory financial statements (31 December 2007 – YTL 1,996).

(Currency - In thousands of New Turkish Lira (“YTL”))

31. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 98.51% of ordinary shares (31 December 2007 – 91.50%).

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the year is YTL 3,901 (2007 – YTL 2,041).

Balances with related parties

	31 December 2008	31 December 2007
Loans and advances to customers	6,282	19,820
Other liabilities (Customer accounts)	1,310	8,412

In addition to balances with related parties above, the Group has corporate bonds issued by Çalık Holding A.Ş. amounting to USD 10,000,000 of nominal value. The Group has reclassified USD 2,000,000 of these bonds to available-for-sale investment securities and USD 8,000,000 to held-to-maturity investment securities. As of 31 December 2008, the carrying value of available-for-sale investment securities and held-to-maturity investment securities are YTL 7,500 and YTL 2,423, respectively.

Off balance sheet balances with related parties

	31 December 2008	31 December 2007
Non-cash loans	164,777	75,255

Transactions with related parties

	2008	2007
Interest income on loans	4,418	1,577
Fee and commission income	832	1,278
Consultancy gain	-	33
Rent expenses	-	24
Other expenses	-	48

32. Commitments and contingencies

	31 December 2008	31 December 2007
Letters of guarantee	265,008	134,842
Letters of credit	72,617	16,823
Other guarantees	12,979	3,626
	350,604	**155,291**

33. Subsequent events

According to the decree of the Council of Ministers numbered 2007/11963 and dated 4 April 2007, for the currency unit of the Republic of Turkey, the term “New” in the name of the national currency was removed beginning from 1 January 2009.

The Bank’s associate Çalık-Şeker Konsorsiyum Yatırım A.Ş.’s title has been changed to Çalık Finansal Hizmetler A.Ş. in the Extraordinary General Assembly dated 5 January 2009. The change has been registered on 13 January 2009 and published on Trade Registry Gazette dated 16 January 2009 and numbered 7229.