**YAPI VE KREDİ BANKASI A.Ş.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS TOGETHER WITH AUDITOR’S REVIEW REPORT**

**30 JUNE 2008**

**Report on Review of Consolidated Interim Financial Statements**

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

*Introduction*

We have reviewed the accompanying consolidated interim balance sheet of Yapı ve Kredi Bankası A.Ş. ("the Bank") as of 30 June 2008 and the related consolidated interim statements of income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

*Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of Yapı ve Kredi Bankası A.Ş. as at 30 June 2008, and of its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM

Istanbul, 8 September 2008

**YAPI VE KREDİ BANKASI A.Ş.**

# INDEX TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2008

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## CONSOLIDATED INTERIM BALANCE SHEET
## AT 30 JUNE 2008 AND 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

| | Notes | 30 June 2008 | 31 December 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 6 | 4,546,435 | 3,740,388 |
| Loans and advances to banks | 7 | 3,635,337 | 1,835,641 |
| Trading assets | 8 | 282,744 | 315,530 |
| Derivative financial instruments | 9 | 85,995 | 50,351 |
| Loans and advances to customers | 10 | 37,727,030 | 31,846,331 |
| Investment securities | | | |
| - Available-for-sale | 11 | 1,023,204 | 1,039,899 |
| - Held-to-maturity | 11 | 12,772,686 | 13,003,287 |
| Investment in associate | 12 | 49,082 | 38,220 |
| Goodwill | 13 | 1,023,528 | 1,023,528 |
| Other intangible assets | 14 | 206,367 | 213,801 |
| Premises and equipment | 15 | 1,119,309 | 1,148,731 |
| Deferred income tax assets | 22 | 455,215 | 492,263 |
| Other assets | 16 | 1,556,963 | 1,072,784 |
| **Total assets** | | **64,483,895** | **55,820,754** |
| **LIABILITIES** | | | |
| Deposits from banks | 17 | 594,048 | 1,262,844 |
| Due to customers | 18 | 39,244,928 | 34,523,020 |
| Other borrowed funds | 19 | 9,834,033 | 7,306,943 |
| Debt securities in issue | 20 | 1,671,590 | 1,542,609 |
| Derivative financial instruments | 9 | 160,599 | 264,806 |
| Financial liabilities designated at fair value | 21 | 53,926 | 51,273 |
| Current income taxes payable | 22 | 69,211 | 14,208 |
| Deferred income tax liabilities | 22 | 164,333 | 132,463 |
| Other provisions | 23 | 350,284 | 301,149 |
| Retirement benefit obligations | 24 | 828,589 | 802,626 |
| Insurance technical reserves | 25 | 792,080 | 786,468 |
| Other liabilities | 26 | 5,200,532 | 3,765,671 |
| **Total liabilities** | | **58,964,153** | **50,754,080** |
| **EQUITY** | | | |
| Share capital and share premium | 28 | 3,900,011 | 3,900,011 |
| Other reserves | 29 | 70,599 | 43,839 |
| Retained earnings | 29 | 1,509,745 | 829,603 |
| **Equity attributable to shareholders of the Parent** | | **5,480,355** | **4,773,453** |
| Equity attributable to minority interest | | 39,387 | 293,221 |
| **Total equity** | | **5,519,742** | **5,066,674** |
| **Total liabilities and equity** | | **64,483,895** | **55,820,754** |
| Commitments and contingent liabilities | 36 | | |

These consolidated interim financial statements as at and for the period ended 30 June 2008 have been approved for issue by the Board of Directors on 8 September 2008.

## YAPI VE KREDİ BANKASI A.Ş.

## CONSOLIDATED INTERIM INCOME STATEMENT
## FOR THE SIX MONTHS ENDED 30 JUNE

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| Interest income | 30 | 3,499,190 | 3,167,380 |
| Interest expense | 30 | (2,213,809) | (2,100,992) |
| **Net interest income** | | **1,285,381** | **1,066,388** |
| Fee and commission income | 31 | 856,953 | 674,085 |
| Fee and commission expense | 31 | (154,257) | (165,931) |
| **Net fee and commission income** | | **702,696** | **508,154** |
| Foreign exchange gains, net | | 47,803 | 54,633 |
| Net trading, hedging and fair value income | 32 | 80,007 | 4,608 |
| Losses from investment securities, net | 32 | (25,639) | (1,285) |
| Insurance technical income, net | | 34,176 | 56,389 |
| Other operating income | | 90,715 | 67,562 |
| **Operating revenues** | | **2,215,139** | **1,756,449** |
| Other operating expenses | 33 | (1,047,903) | (885,439) |
| | | **1,167,236** | **871,010** |
| Impairment losses on loans and credit related commitments, net | 34 | (7,283) | (85,620) |
| Provision for retirement benefit obligations | 24 | (32,697) | (41,456) |
| Other provisions | 23 | (120,282) | (94,796) |
| **Operating profit** | | **1,006,974** | **649,138** |
| Share of profit of associate | 12 | 5,418 | 2,453 |
| **Profit before income tax** | | **1,012,392** | **651,591** |
| Income tax expense | 22 | (203,958) | (120,186) |
| **Profit for the period** | | **808,434** | **531,405** |
| **Attributable to:** | | | |
| Equity holders of the Parent | | 808,926 | 459,024 |
| Minority interest | | (492) | 72,381 |
| | | **808,434** | **531,405** |
| Basic earning per share attributable to the equity holders of the Parent (expressed in YTL per thousand share) | | 2.36 | 1.46 |

The accompanying notes set out on pages 5 to 91 form an integral part of these consolidated interim financial statements.

## CONSOLIDATED INTERIM CASH FLOW STATEMENT
## FOR THE SIX MONTHS ENDED 30 JUNE

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit | | 808,434 | 531,405 |
| Adjustments for: | | | |
| Unrealised gain on trading assets, net | | 21,171 | 16,688 |
| Allowances for losses on loans and advances | 34 | 7,283 | 85,620 |
| Measurement of derivative financial instruments at fair value | | (139,852) | 136,585 |
| Share of profit of associate | 12 | (5,418) | (2,453) |
| Amortisation of other intangible assets | 33 | 21,580 | 16,819 |
| Depreciation of premises and equipment | 33 | 59,367 | 69,484 |
| Impairment charge on premises and equipment, net | 33 | (837) | (100) |
| Impairment charge on assets held for resale | 33 | 522 | - |
| Provision for current and deferred income taxes | 22 | 203,958 | 120,186 |
| Other provisions | 23 | 120,282 | 94,796 |
| Provision for retirement benefit obligations | 24 | 32,697 | 41,456 |
| Other liabilities | | 2,914 | 79 |
| Unearned commission income | | 1,790 | (6,069) |
| Add back dividend income | | (3,815) | (3,607) |
| Interest income - net | 30 | (1,285,381) | (1,066,388) |
| Interest paid | | (2,173,859) | (2,111,112) |
| Interest received | | 3,406,141 | 3,306,685 |
| Translation difference | 29 | 22,725 | (16,462) |
| **Cash flows from operating profits before changes in operating assets and liabilities** | | **1,099,702** | **1,213,612** |
| Changes in operating assets and liabilities: | | | |
| Net (increase) / decrease in cash balances with central banks | | (598,535) | 306,885 |
| Net (increase) / decrease in loans and advances to banks | | (41,281) | 387,099 |
| Net decrease in trading assets | | 11,618 | 180,512 |
| Net (increase) in loans and advances to customers | | (5,738,876) | (1,918,584) |
| Net (increase) in other assets | | (535,040) | (186,763) |
| Net (decrease) in deposits from banks | | (858,484) | (1,328,032) |
| Net increase / (decrease) in due to customers | | 4,689,270 | (665,601) |
| Net increase / (decrease) in other liabilities and provisions | | 905,680 | (98,124) |
| Income taxes paid | | (39,772) | (53,380) |
| **Net cash used in operating activities** | | **(1,105,718)** | **(2,162,376)** |
| **Cash flows from investing activities** | | | |
| Purchase of premises and equipment | 15 | (44,349) | (45,048) |
| Proceeds from the sale of premises and equipment | 15 | 16,150 | 10,108 |
| Purchase of intangible assets, net | 14 | (14,143) | (5,957) |
| Redemption / (purchase) of investment securities, net | | 179,553 | 2,443,280 |
| Dividends received | | 3,815 | 3,607 |
| Disposal of investments, net | | 5,575 | 13,591 |
| **Net cash used in investing activities** | | **146,601** | **2,419,581** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowed funds, net | | 2,838,445 | 364,873 |
| Dividend paid to minority | | (1,450) | (77,742) |
| **Net cash from financing activities** | | **2,836,995** | **287,131** |
| **Net increase in cash and cash equivalents** | | **1,877,878** | **544,336** |
| Cash and cash equivalents at the beginning of the period | 5 | 2,265,223 | 3,525,757 |
| **Cash and cash equivalents at the end of the period** | **5** | **4,143,101** | **4,070,093** |

The accompanying notes set out on pages 5 to 91 form an integral part of these consolidated interim financial statements.

## YAPI VE KREDİ BANKASI A.Ş.

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

| | Note | Attributable to equity holders of the Bank | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Other Reserves | Retained earnings | Total | Minority interest | Total equity |
| **Previously reported balance at 31 December 2006** | | **3,082,347** | **37,579** | **46,293** | **320,155** | **3,486,374** | **548,277** | **4,034,651** |
| Effects of change in consolidation scope | 2.B | - | - | - | 172,384 | 172,384 | - | 172,384 |
| **Adjusted at 1 January 2007** | | **3,082,347** | **37,579** | **46,293** | **492,539** | **3,658,758** | **548,277** | **4,207,035** |
| Net change in available for sale investments, net of tax | 29 | - | - | 491 | - | 491 | 295 | 786 |
| Gains on hedges of a net investment in a foreign operation | 29 | - | - | 6,806 | - | 6,806 | - | 6,806 |
| Currency translation differences | | - | - | (23,268) | - | (23,268) | (98) | (23,366) |
| Net income recognised directly in equity | | - | - | 6,829 | - | 6,829 | - | 6,829 |
| Profit for the period | | - | - | - | 459,024 | 459,024 | 72,381 | 531,405 |
| Total recognised income for the period | | - | - | 6,829 | 459,024 | 465,853 | 72,381 | 538,234 |
| Effect of merged entities under common control | 2.R 27 | - | - | 43 | 36,773 | 36,816 | (36,816) | - |
| Dividends declared | | - | - | - | - | - | (77,742) | (77,742) |
| Transfer from reserves | | 6,632 | - | - | (6,632) | - | - | - |
| Purchase from minority interests | 27 | - | - | - | 327 | 327 | (327) | - |
| **Balance at 30 June 2007** | | **3,088,979** | **37,579** | **37,194** | **982,031** | **4,145,783** | **505,970** | **4,651,753** |
| **Balance at 1 January 2008** | | **3,366,580** | **533,431** | **43,839** | **829,603** | **4,773,453** | **293,221** | **5,066,674** |
| Net change in available for sale investments, net of tax | 29 | - | - | (18,516) | - | (18,516) | (78) | (18,594) |
| Gains on hedges of a net investment in a foreign operation | 29 | - | - | (29,087) | - | (29,087) | - | (29,087) |
| Currency translation differences | | - | - | 50,227 | - | 50,227 | - | 50,227 |
| Net income recognised directly in equity | | - | - | (4,379) | - | (4,379) | - | (4,379) |
| Profit for the period | | - | - | - | 808,926 | 808,926 | (492) | 808,434 |
| Total recognised income for the period | | - | - | (4,379) | 808,926 | 804,547 | (492) | 804,055 |
| Dividends declared | | - | - | - | - | - | (1,450) | (1,450) |
| Transfer from reserves | | - | - | 26,930 | (26,930) | - | - | - |
| Purchase from minority interests | 27 | - | - | (12) | (101,854) | (101,866) | (251,814) | (353,680) |
| Effect of disposal of subsidiary | | - | - | 1,597 | - | 1,597 | - | 1,597 |
| **Balance at 30 June 2008** | | **3,366,580** | **533,431** | **70,599** | **1,509,745** | **5,480,355** | **39,387** | **5,519,742** |

The accompanying notes set out on pages 5 to 91 form an integral part of these consolidated interim financial statements.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

Yapı ve Kredi Bankası A.Ş. (“YKB” or the “Bank” or together with its subsidiaries it is referred to as “the Group” in these consolidated financial statements) was established with the permission of the Council of Ministers No.3/6710 on 9 September 1944 as a private capital commercial bank, authorised to perform all banking, economic, financial and commercial activities which are allowed by the laws of the Turkish Republic. The statute of the Bank has not changed since its corporation.

As of 28 September 2005, 57.4% of the Bank’s shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund (“SDIF”) were purchased by Koçbank A.Ş. (“Koçbank”). Besides, during April 2006 Koçbank purchased 9.1% of the shares of the Bank which were publicly traded on the ISE and 0.8% of the shares of an investment fund which were in the available-for-sale portfolio of the Bank. As a result, Koçbank increased its participation ratio to 67.3%. As explained in details in Note 27; all rights, receivables, debts and liabilities of the Koçbank have been transferred to the Bank thereby the merger of the two banks procedure has been registered as at the date of 2 October 2006. After the merger, 80.18% of the direct control of the Bank’s shares has been transferred to the Koç Finansal Hizmetler A.Ş. (“KFS”).

KFS was established on 16 March 2001 to collect Koç Group finance companies under one organization and it became the main shareholder of the Koçbank in 2002. During this organization process the subsidiaries of Koçbank, namely, Koç Finansal Kiralama A.Ş. (“Koç Leasing”), Koç Faktoring Hizmetleri A.Ş. (“Koç Faktoring”), Koç Yatırım Menkul Değerler A.Ş. (“Koç Yatırım”), Koç Portföy Yönetimi A.Ş. (“Koç Portföy”), Koçbank Nederland N.V. ve Koçbank Azerbaijan Ltd., were sold to KFS. As of 22 October 2002, Koç Group established a strategic partnership with UniCredito Italiano S.p.A (“UCI”) over KFS. Therefore, the indirect main shareholders of the Bank are UCI and Koç Group.

With and in scope of the Share Exchange Agreement signed with KFS and approved by the Banking Regulatory and Supervisory Agency (“BRSA”) and the Capital Markets Board (“CMB”), allowing the transfer of 59.47% of the capital of Yapı Kredi Faktoring A.Ş., 73.10% of the capital of Yapı Kredi Finansal Kiralama A.O. and 99.80% of the capital of Yapı Kredi Bank Azerbaijan Joint Stock Company (“Yapı Kredi Azerbaijan”) from KFS, the increase in capital by YTL277,601,284 giving the share to KFS has been approved in the Extraordinary General Assembly meeting held on 30 September 2007 and the decisions of the meeting have been registered as of 18 October 2007. The share transfer transactions in the framework of the agreement have been finalised as of 31 October 2007 and after the transaction, the share of KFS in YKB has increased to 81.79%.

In 2006 and 2007, with the acquisition of YKB, the Group launched structural reorganisation and the following subsidiaries have been legally merged:

| Merging Entities | | Merger Date | Merged Entity |
|---|---|---|---|
| YKB | Koçbank | 2 October 2006 | YKB |
| Yapı Kredi Finansal Kiralama A.O. (“Yapı Kredi Leasing”) | Koç Leasing | 25 December 2006 | Yapı Kredi Leasing |
| Yapı Kredi Faktoring A.Ş. (“Yapı Kredi Faktoring”) | Koç Faktoring | 29 December 2006 | Yapı Kredi Faktoring |
| Yapı Kredi Portföy Yönetimi A.Ş. (“Yapı Kredi Portföy”) | Koç Portföy | 29 December 2006 | Yapı Kredi Portföy |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. (“Yapı Kredi Menkul”) | Koç Yatırım | 12 January 2007 | Yapı Kredi Menkul |
| Yapı Kredi Nederland N.V. (“Yapı Kredi NV”) | Koçbank Nederland N.V. | 2 July 2007 | Yapı Kredi NV |

## NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of 30 June 2008, 18.21% shares of the Bank are publicly traded (31 December 2007: 18.21%). The Bank's publicly traded shares are traded in ISE and the representatives of these shares, Global Depository Receipts, is quoted to London Stock Exchange.

The Group's core business activities include retail banking, corporate banking, private banking, credit cards, international banking, leasing, factoring and investment services and has operations in Turkey, the Netherlands, Azerbaijan and Russia.

At 30 June 2008, the Group has 17,323 employees (31 December 2007: 16,779 employees). The Bank has 790 branches operating in Turkey, 1 branch in off-shore region and 1 representative office operating abroad (31 December 2007: 675 branches operating in Turkey, 1 branch in off-shore region and 1 representative offices) and 14,821 employees (31 December 2007: 14,249 employees).

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the year and period presented, unless otherwise stated.

### A. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The consolidated financial statements are based on the historical cost convention, as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements are presented in the national currency of the Republic of Turkey, YTL which is the Group's functional and presentation currency.

***Adoption of New or Revised Standards and Interpretations***

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings. The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the group.

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.

IAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009.

IFRS 2 (amendment) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009.

IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

IAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009.

IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009.

IFRIC 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Restatement of prior year consolidated financial statements

Assets and liabilities, subject to business combinations in the accounting of business combinations which occur under common control are accounted for in the consolidated financial statements at their carrying values. Income statements are consolidated as of the beginning of the financial year when the business combinations occurred. Previous period financial statements are adjusted in the same way in order to be comparable. As a result of those transactions, any goodwill or negative goodwill is not calculated. The difference between the investment amount and the share in capital in the acquired company is directly accounted under equity as "the effect of change in consolidation scope".

The Group used the aforementioned policy for the legal merger of Yapı Kredi NV and Koçbank Nederland N.V. and for the share Exchange transaction of Yapı Kredi Azerbaijan that are explained in Note 27 with the intention of fair presentation the economic substance of transactions. According to this policy, the consolidated financial statements presented for comparative purposes have been restated.

Assets and liabilities, subject to business combinations in the accounting of business combinations which occur under common control are accounted for in the consolidated financial statements at their carrying values. Income statements are consolidated as of the beginning of the financial year when the business combinations occurred. Previous period financial statements are adjusted in the same way in order to be comparable. As a result of those transactions, any goodwill or negative goodwill is not calculated.

### C. Consolidation

**(a) Subsidiaries**

Subsidiaries (including special purpose entities), in which Group has power to control the financial and operating policies for the benefit of YKB, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the using rights, otherwise having the power to exercise control over the financial and operating policies, have been fully consolidated. The Group sponsors the formation of special purpose entities, which may or may not be directly owned, for the purpose of asset securitization transactions. Such entities are consolidated in the Group's consolidated financial statements when the substance of the relationship between the Group and the entity indicates that control is held by the Group. Subsidiaries and special purpose entities are consolidated from the date on which control is transferred to Group and are no longer consolidated from the date that control ceases.

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.

The balance sheets and income statements of the subsidiaries and special purpose entities are consolidated on a line-by-line basis and the carrying value of the investment held by YKB and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Group companies are eliminated on consolidation. The dividends arising from subsidiaries are eliminated from profit of the period.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The list of principal subsidiaries at 30 June 2008 and 31 December 2007 is as follows:

| | | | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|---|---|
| **Name of subsidiary** | **Country of incorporation** | **Nature of business** | **Control rates (%)** | **Effective rates (%)** | **Control rates (%)** | **Effective rates (%)** |
| Yapı Kredi Leasing | Turkey | Leasing | 98.85 | 98.85 | 98.85 | 98.85 |
| Yapı Kredi Faktoring | Turkey | Factoring | 99.96 | 99.96 | 99.96 | 99.96 |
| Yapı Kredi Portföy | Turkey | Portfolio management | 99.97 | 99.95 | 99.97 | 69.15 |
| Yapı Kredi Menkul (Note 27) | Turkey | Investment management | 99.98 | 99.98 | 64.70 | 64.70 |
| Yapı Kredi Yatırım Ortaklığı A.Ş. | Turkey | Portfolio management | 56.07 | 56.06 | 56.07 | 40.19 |
| Yapı Kredi Sigorta A.Ş. | Turkey | Insurance | 93.94 | 93.94 | 93.94 | 89.71 |
| Yapı Kredi Emeklilik A.Ş. | Turkey | Insurance | 100.00 | 93.94 | 100.00 | 89.70 |
| Yapı Kredi NV (Note 27) | Netherlands | Banking | 100.00 | 100.00 | 32.76 | 32.76 |
| Stiching Custody Services YKB | Netherlands | Custody Services | 100.00 | 100.00 | 32.76 | 32.76 |
| Yapı Kredi Bank Moscow | Russia | Banking | 100.00 | 100.00 | 100.00 | 100.00 |
| Yapı Kredi Bank Deutschland A.G. (1) | Germany | Banking | - | - | 100.00 | 100.00 |
| Yapı Kredi Bank Holding B.V. | Netherlands | Holding | 100.00 | 100.00 | 100.00 | 100.00 |
| Yapı Kredi Azerbaijan | Azerbaijan | Banking | 100.00 | 100.00 | 100.00 | 99.96 |
| Yapı Kredi Invest LLC | Azerbaijan | Investment management | 100.00 | 100.00 | - | - |
| Enternasyonel Turizm Yatırım A.Ş. ("Enternasyonel") (2) | Turkey | Investment | 99.99 | 99.96 | 99.99 | 99.96 |
| Yapı Kredi Koray G.Y.O.A.Ş. ("Yapı Kredi Koray") (2) | Turkey | Real estate | 30.45 | 30.45 | 30.45 | 30.45 |
| Agro-san Kimya Sanayi ve Ticaret A.Ş. ("Agro-san") (2) | Turkey | Agricultural chemicals | 100.00 | 99.99 | 100.00 | 99.99 |
| Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş. (2) | Turkey | Culture / art publications | 100.00 | 99.99 | 100.00 | 99.99 |
| Yapı Kredi Diversified Payment Rights Co. (3) | Cayman Islands | Special Purpose Company ("SPC") | | | | |

(1) By the decision of the Board of Directors at 3 October 2007; assets of Yapı Kredi Bank Deutschland A.G., which is owned 65.42% by the Bank and 34.58% by Yapı Kredi Holding B.V. amounting to YTL78,533 thousand are included in the financial statements as assets held for sale according to the commerce agreement with Avenue Europe Investment LP. The sale transaction of Yapı Kredi Bank Deutschland A.G. finalised as of 29 February 2008.

(2) These subsidiaries were not consolidated due to immateriality and classified as available-for-sale securities carried at their fair values.

(3) Yapı Kredi Diversified Payment Rights Finance Company is a special purpose entity established for YKB's securitisation transactions as explained in Note 20. It is included in the consolidation although YKB or any of its affiliates does not have any shareholding interest in this company.

### (b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting and is initially recognised at cost. The Group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The details of the associate at 30 June 2008 and 31 December 2007 is as follows:

| | | | | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|---|---|---|
| **Name of associate** | **Country of incorporation** | **Nature of business** | **Original currency** | **Control rate(%)** | **Effective rate (%)** | **Control rate (%)** | **Effective rate (%)** |
| Banque de Commerce et de Placements ("Banque de Commerce") | Switzerland | Banking | CHF thousand | 30.67 | 30.67 | 30.67 | 30.67 |

### (c) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions within the Group, as the minority interests are perceived as genuine equity participations. An acquisition of minority interest is treated as a transaction between equity shareholders which affects the ownership structure of the entity but not its operations. The difference between the acquisition cost and net asset acquired portion is recognised under equity. Disposals from minority interests are also considered as equity transactions and result in changes in the equity of the Group.

### D. Foreign currency translation

### (a) Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in YTL, which is the presentation currency of YKB.

### (b) Transactions and balances

The financial statements are presented in YTL, the currency of the primary economic environment in which the Group operates. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### (c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the exchange rate prevailing at the date of that balance sheet,

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(ii) income and expenses for each income statement are translated at average exchange rates.

Exchange differences resulting from the different rates applied for the translation of the balance sheet and the income statement as well as differences arising from the translation of the portion of the net asset value in foreign entities pertaining to the Group are recognised as "currency translation differences" in the equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings designated as hedges of such investments, are taken to equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

**E. Related parties**

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the Koç Group and the UCI Group are considered and referred to as related parties (Note 38).

**F. Due from other banks**

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**G. Financial assets and liabilities at fair value through profit or loss**

This category has two sub-categories financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Trading assets are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading assets is reported as interest income.

All purchases and sales of trading assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date, which is the date that the asset is delivered to/by the Group.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### H. Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at fair value. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for sale are recognised in the equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is transferred to the income statement.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Equity securities classified as available-for-sale are carried at fair values except unlisted equity securities, which are measured at cost after deduction for any impairment (Note 11).

Interest earned whilst holding investment securities is reported as interest income.

All purchases and sales of investment securities are recognised at settlement date, which is the date the asset is delivered to/by the Group.

Unsettled transactions are recorded as off-balance sheet commitments until the settlement date.

### I. Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the financial statements as available-for-sale, held for trading and held-to-maturity and a counterparty liability is included in due to other banks or due to customers. Securities purchased under agreements to resell ("reverse repo") are recorded as loans and advances to banks. The difference between the sale and repurchase price is treated as interest and amortised over the life of repo agreements using the effective interest method.

### J. Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### K. Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;

In practice, the Group uses a set of obligatory and judgement-based triggers that can lead to a classification as impaired. The final decision on impaired classification is always subject to expert judgement. Obligatory triggers include bankruptcy, financial restructuring and 90 days' past due. Judgement-based triggers include elements such as (but are not limited to) negative equity, regular payment problems, improper use of credit lines, legal action by other creditors. These triggers are complementary to the judgement of an expert.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Group adopted Incurred but not reported ("IBNR") model for performing loans, based on Basel II expected loss concept with intrinsic elements such as loss detection period ("LDP") and expert views. IBNR impairments on loans represent the provisions that are created not only for transaction on which loss events were individually identified, but also for these transactions where loss events have already occurred, but have not been reported yet. In such case provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

### L. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of derivative financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) derivative financial instruments are classified as held for trading.

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. The fair value of over-the-counter ("OTC") forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 30 June 2008. The difference between the spot rate at the time of origination and the original forward rate (for matured contracts) and the original forward rate discounted to balance sheet date (for outstanding contracts) is reclassified to interest income or expense.

### M. Hedge accounting

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in values of hedged items.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Net investment hedge*

The effective portion of changes in the fair value of borrowings that are designated and qualify as net investment hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

*Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in “net trading income”. Any ineffectiveness is also recorded in “net trading income”.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

**N. Premises and equipment**

All premises and equipment are carried at cost less accumulated depreciation and permanent impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

| | |
|---|---|
| Buildings | 50 years |
| Furniture and fixtures and motor vehicles | 5 years |
| Office equipment | 5 years |
| Leasehold improvements | 5 years, or over the period of the lease if less than 5 years |

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less cost to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account for the determination of net profit.

Expenses for the repair of property and equipment are charged against income. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily the capitalised branch refurbishment costs.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### O. Other intangible assets

*(i) Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (not exceeding a period of five years).

*(ii) Trademarks and customer relationships related intangibles*

Intangible assets such as trademarks and customer relationships related intangibles acquired in a business combination are carried at fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. The Group recognises at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. Those intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years.

*(iii) Other intangible assets*

Expenditures to acquire patents, rights and licenses are capitalised and amortised using the straight-line method over their useful lives of 5 years.

### P. Accounting for leases

*(i) Group company is the lessor*

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

*(ii) Group company is the lessee*

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Q. Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are accounted for using the purchase method in the scope of IFRS 3.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. In business combinations, the acquirer recognises identifiable assets, intangible assets (such as trademarks) and/or contingent liabilities which are not included in the acquiree's financial statements and which can be separated from goodwill, at their fair values in the consolidated financial statements. The goodwill previously recognised in the financial statements of the acquiree is not considered as an identifiable asset.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any (Notes 13 and 27). Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Each of those cash-generating units is represented by each primary reporting segment except foreign operations (Note 37). Impairment testing is performed at least annually by comparing the present value of the expected future cash flows from a business with the carrying amount of its net assets, including attributable goodwill.

### R. Business combinations involving entities under common control

A business combination involving entities under common control of KFS is a business combination in which all of the combining entities are ultimately controlled by KFS both before and after the business combination, and that control is not transitory. In that respect, the Group considers legal mergers arising between entities ultimately controlled by KFS as business combinations under common control. On the other hand, business combination involving entities under common control is scoped out of IFRS 3 and there is no other guidance on how to account for such transactions in current IFRS literature.

As there is an absence of a Standard or an Interpretation that specifically applies to business combination involving entities under common control, the Bank management, in accordance with IAS 8, used its judgment and developed and applied an accounting policy that the management believes resulted in information that is relevant to the economic decision-making needs of users and reflected the economic substance of transactions and not merely its legal form. In making its judgment in accordance with IAS 8, management considered US GAAP as a framework with a similar conceptual framework and applied pooling of interest method applicable under US GAAP in accounting the business combinations involving entities under common control of KFS.

In applying the pooling of interests method, the financial statement items of the combining entities for the period in which the combination occurs and for any comparative periods disclosed are included in the financial statements of the combined entities as if they had been combined from the beginning of the earliest period presented which is 1 January 2006 for the Group ("as if" basis). Financial statements and financial information presented for prior years are restated to furnish comparative information (i.e., restated in a manner similar to a pooling of interests). Further, financial statements of entities under common control are combined on an "as if" pooling basis only for those prior periods in which the common control existed, i.e. YKB and its financial subsidiaries are considered from the date of control transfer to KFS as of 28 September 2005 (Note 27).

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Since business combinations involving entities under common control of KFS result in a single combined entity, a single uniform set of accounting policies is adopted. Therefore, the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts adjusted only as a result of conforming the combining entities' accounting policies and applying those policies to all periods presented. There is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the combining entities, whether occurring before or after the merger, are eliminated in preparing the financial statements of the combined entity.

Expenditures incurred in relation to legal mergers are recognized as expenses in the period in which they are incurred.

### S. Impairment of assets

At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognised immediately in the consolidated income statement. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognised in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognised. Such a reversal amount cannot be higher than the previously recognised impairment and is recognised as income in the consolidated financial statements.

### T. Financial liabilities

Financial liabilities including deposits from banks, due to customers and other borrowed funds are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

### U. Income taxes

*(i) Income taxes currently payable*

Income taxes ("corporation tax") currently payable are calculated based in accordance with the Turkish tax legislation (Note 22).

Taxation for foreign subsidiaries has been provided for in these consolidated financial statements in accordance with relevant tax legislations currently in force in countries of operation of related foreign subsidiaries.

Taxes other than on income are recorded within operating expenses (Note 33).

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

*(ii) Deferred income taxes*

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from measurement of financial assets and liabilities at fair value, provision for loan impairment and provision for employment termination benefits.

Deferred income tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilised (Note 22).

### V. Retirement benefit obligations

*(a) Pension benefits transferrable to Social Security Institution ("SSI")*

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognised by an official decree, providing all qualified YKB employees with pension and post-retirement benefits. This scheme is funded through payments of both the employees and the employer as required by SSI Law Numbered 506 and are as follows:

| | 30 June 2008 | |
|---|---|---|
| | **Employer** | **Employee** |
| - Retirement benefit contributions | 13.5% | 9% |
| - Medical benefit contributions | 6% | 5% |

The Group's obligation in respect of the Fund has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the Temporary Article 20 of the "Law regarding the changes in Social Insurance and General Health Insurance Law and other related laws and regulations" ("New Law") (Note 24). The pension disclosures set out in Note 24 therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The pension benefits transferrable to SSI are calculated annually by an independent actuary who is registered with the Undersecretariat of the Treasury.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to income statement

*(b) Reserve for employment termination benefits*

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actuarial gains and losses are recognised in the consolidated income statement.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### W. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

*Uncertain tax positions*

The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

### X. Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Y. Fee and commission income and expense

Fees and commissions are generally recognised in the income statement on an accrual basis over the life of the transaction to which they refer or on a cash basis at the time the service is received/ the transaction is performed, whichever is more appropriate.

Portfolio and other management, advisory and service fees are recognised based on the applicable service contracts.

### Z. Share capital

*(i) Share issue costs*

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

*(ii) Share premium*

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

*(iii) Dividends on ordinary shares*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

### AA. Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers, if the latter fails to meet their obligation. Acceptances are accounted for as off-balance sheet transactions.

### AB. Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans (Note 2.J). Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

### AC. Offsetting

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

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### AD. Cash and cash equivalents

The cash and cash equivalents comprise balances with less than 90 days' maturity including cash and balances with the central banks excluding reserve requirements and amounts loans and advances to banks (Note 5).

### AE. Insurance business

*(i) Premium Income*

Premium income is recognised in the period over which insurance coverage is provided to the customer. Premiums received relating to future periods are deferred on a daily pro-rated basis and only recognised in the income statement when earned.

Reinsurance premiums are recognised on the same basis as the related premium income.

*(ii) Claims*

A provision is made for the estimated cost of claims notified but not settled and Insurance IBNR claims at the balance sheet date, less amounts recoverable from reinsurers.

The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling each outstanding claim, on a case by case basis, after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases.

*(iii) Unearned Premium Reserve ("UPR")*

Unearned premiums are those portions of the premiums underwritten during the year that relate to the period of risk subsequent to the balance sheet date for all policies other than life policies with more than one year of maturity. The unearned premium reserve set aside has been computed on a daily pro-rated basis except marine branch. For marine policies, UPR is calculated as 50% of the last three months' premiums.

*(iv) Deferred Acquisition Costs ("DAC")*

The direct commission expenses incurred in acquiring the unearned portion of premiums are recorded on gross and a policy by policy basis and are recognised in the income statement on the same basis.

The direct commission expenses incurred in acquiring pension contracts, which are treated as investment contracts, are deferred in the balance sheet under other assets, to extent that the Group's subsidiary has secured revenues under these contracts. Such deferred acquisition costs are amortised over 18 months and tested for recoverability at each balance sheet date.

*(v) Life Mathematical Reserves*

The life mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas approved by the Prime Ministry Undersecretariat of Treasury ("Treasury").

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

*(vi) Life Profit Share Reserve*

Life profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. Investment income presented within income from insurance operations represents income generated through utilisation of funds associated with mathematical reserves in various investment tools whereas the provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

*(vii) Provision for Unexpired Risks:*

Adequacy of unearned premium reserve is tested by considering net incurred claims to net earned premiums ratio for the last calendar year based on existing contracts on branch basis. If the calculated loss ratio is higher than 100%, provision for unexpired risk is accounted for by multiplying net unearned premium reserve with the portion exceeding 100%.

*(viii)Liability Adequacy Test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Any deficiency is immediately charged to profit or loss. The Group has no additional liability with respect to the life insurance portfolio of its subsidiary since in its revised tariffs the subsidiary changed the basis of its life profit share calculation to guarantee an annual return of the lower of the guaranteed rate or the annual inflation rate.

*(ix) Liability to Pension Contract holders for Loyalty Reward*

The Group's subsidiary also calculates a liability for its pension contracts, recorded under other liabilities, which represent the present value of the entrance fees received from pension contract holders, since the Group's subsidiary has an unconditional commitment to return such entrance fees, adjusted for inflation, back to the contract holders when they meet certain loyalty criteria that is when they remain invested in the pension funds under the management of the subsidiary for 10 years. The present value of such liability is calculated using the long term real interest rate of 5.71% and the persistency rate of pension contract holders.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### AF. Segment Reporting

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and if its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

The Group has chosen business segments as the Group's primary segment reporting format. The Group manages its business through five strategic business units: Retail banking, Corporate banking, Private banking and wealth management, Credit cards and Foreign operations. Geographical segments have not been disclosed in these consolidated financial statements as the secondary segment, as the operations of the Group in geographical areas other than Turkey are not qualified as reportable individually.

### AG. Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

| | **30 June 2008** | **30 June 2007** |
|---|---|---|
| Profit attributable to equity holders of the Company | 808,926 | 459,024 |
| Weighted average number of ordinary shares in issue (thousand) | 342,705,100 | 314,945,000 |
| **Basic earning per share (expressed in YTL per 1,000 share)** | **2.36** | **1.46** |

### AH. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation in the 30 June 2008 consolidated interim financial statements.

## NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4). Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Held-to-maturity financial assets.*** Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by YTL424,580 thousand (31 December 2007: increase by YTL181,042 thousand), with a corresponding entry in the fair value reserve in equity (Note 4.E).

***Impairment of available for-sale equity investments.*** The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debit balance in the fair value reserve to profit or loss.

***Impairment losses on loans and advances.*** The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/- 5% the provision would be estimated YTL53,645 thousand (31 December 2007: YTL71,833 thousand) higher or lower. The Group calculated IBNR provision which combines the Basel II concept of expected loss with intrinsic elements such as loss detection period and expert views. As a result of the studies performed, the Bank revised the IBNR provisions by considering new loss detection periods, which were formerly set as 1 year, differentiating them by segment/type of products. To the extent that loss detection period differs by 3 months, the IBNR provision would be estimated around YTL164,000 thousand (31 December 2007: YTL140,000 thousand) lower.

***Fair value of derivatives.*** Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

## NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

***Finance leases and derecognition of financial assets.*** Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

***Special Purpose Entities.*** Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

***Tax legislation.*** Turkish tax, currency and customs legislation is subject to varying interpretations as disclosed in Note 22.

***Pension Fund.*** The Group determines the present value of funded benefit obligations in accordance with New Law by using several critical actuarial assumptions, including the discount rate, mortality rate, and medical costs as disclosed in Note 24. This approach recognises the obligations of the Group to make payments to SSI in respect of the benefits which will be transferred to SSI rather than an obligation to make benefit payments to individuals.

***Deferred income tax asset recognition.*** Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances.

***Goodwill.*** Recoverable amount of goodwill was estimated based on value in use calculation as disclosed in Note 13.

## NOTE 4 - FINANCIAL RISK MANAGEMENT

Group’s risk management functions are independent from the commercial operations along with committees such as Asset and Liability Committee (“ALCO”) and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring Group’s fulfilment of requirements stipulated by the new Banking Law in a manner consistent with shareholders’ risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) modelling risks and back-testing risk models and (6) ensuring compliance with Basel II requirements and Turkish Banking Law.

### A. Credit risk

Credit risk management involves the following key roles and responsibilities in the Group:

(a) establishment of credit risk strategies, as well as definition of credit policy guidelines, supporting the organization for their correct implementation, definition of the optimum composition of the overall loan portfolio, identification of risk positions within legal and group wide limitations,

(b) monitoring, measuring and reporting the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.) acting as a second level of control, preparation and presentation of the strategic reports to senior management, including evolution of loan provisioning and comparison with peer banks,

(c) responsible for the development, monitoring and upgrading of the rating and scoring models (PD, EAD, LGD models) as well as pricing models for all segments. This includes:

- methodological documentation,
- technical specification for IT implementation and support to local use,
- definition of process guidelines regarding models usage and use tests,
- satisfy Regulator’s requests, discuss with Regulators throughout validation process of models,
- perform back-testing analyses,
- definition of rating override process,
- cooperation with UCG for internal validation,
- development of credit risk Value-at-Risk (“VaR”) models, ensuring model feeding, performing periodical stress tests.

(d) coordination of Basel 2 compliance projects at Group level, acting as interface with Local Regulator and the Sub-Holding, defining the master roll-out plan for the implementation of Basel 2 approaches. Conducting QIS analyses as well as Capital Absorption analyses by segments, under the scope of Basel 2 implementation.

(e) preparation of credit risk budget in coordination with planning and control department in line with predefined lending targets.

(f) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio and maintain the asset quality.

Credit policies reflect the general credit risk principles to be followed throughout YKB’s lending activities and the related strategies and goals, as well as shareholders’ risk appetites. The credit policy guideline is prepared by YKB’s credit risk management department and approved by the Board of Directors.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Bank Rating System:

Since 2002, YKB has employed an internal rating model developed together with Oliver Wyman & Company for the credit risk management of its corporate clients. This system was back-tested with UniCredit, and is subject to recalibration through changes in customer composition.

Integrated with the underwriting process, Bank’s internal rating model runs five financial and eight qualitative criteria and assigns a probability of default for each borrower, classifying them under a scale of 17 grades examining both quantitative (balance sheet, income and cash flow analysis, collaterals’ value) and qualitative information (management assessment, competitive position, sector performance and environmental factors). This function enables to measure the probability of default at single client level. The outcomes of the grading system reflect the riskiness of each rated customer, and IBNR provisions are set aside in accordance with performing client’s rating. In other words, Bank employs client based risk management methodology for the calculation of cost of credit risk. Additionally, the Bank’s internal rating system also provides a significant historical database on customer information and behaviour.

The Bank’s rating tool concentration by risk classes as of 30 June 2008 and 31 December 2007 is as follows:

| | | Concentration level (%) | |
|---|---|---|---|
| | Rating class (*) | 30 June 2008 | 31 December 2007 |
| Above average | 1-4 | 28.4 | 20.2 |
| Average | 5+ - 6 | 51.7 | 53.6 |
| Below average | 7+ - 9 | 19.9 | 26.2 |

(*) For corporate and commercial clients only

In order to accurately assess and monitor credit risk for the SME segment, YKB has implemented a new underwriting and evaluation tool in 2006, namely SMiLE, developed by YKB with the assistance of Fair Isaac. For the time being, the model employs a generic scorecard, appropriate data being in the process of accumulation for the establishment of a statistical model which will be subject to calibration, providing proper PDs to be individually assigned to each customer.

A scoring model is also used throughout the application and granting processes for the consumer loans and credit cards segment. These models are to be developed and updated in accordance with changes in customer behaviour.

The above mentioned methodologies and processes dedicated to different market segments (usage of different credit evaluation tools per segments) gives YKB the ability to measure, manage and monitor credit risk in a more accurate way.

In line with the above mentioned methodology, the Group classifies its credit portfolio into following groups:

| Group’s Rating | Loans and advances % | Provision Coverage % |
|---|---|---|
| 1. Performing loans - neither past due nor impaired | 93.62 | 1.16 |
| 2. Watch-listed - individually impaired | 2.62 | 5.24 |
| 3. Legal follow-up - individually impaired | 3.76 | 69.14 |
| | **100.00** | **3.82** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

The details of the loans and advances past due but not impaired which classified under the performing loans are as follows;

**30 June 2008**

| | Corporate | Consumer | Credit cards | Leasing | Factoring | Total |
|---|---|---|---|---|---|---|
| Past due up to 30 days | 421,687 | 163,691 | 127,473 | 6,543 | - | 719,394 |
| Past due 30 - 60 days | 134,170 | 104,949 | 201,391 | 7,352 | - | 447,862 |
| Past due 60-90 days | 47,570 | 24,815 | 78,993 | 579 | - | 151,957 |
| **Total** | **603,427** | **293,455** | **407,857** | **14,474** | **-** | **1,319,213** |

**31 December 2007**

| | Corporate | Consumer | Credit cards | Leasing | Factoring | Total |
|---|---|---|---|---|---|---|
| Past due up to 30 days | 105,090 | 120,931 | 252,597 | 7,834 | - | 486,452 |
| Past due 30 - 60 days | 60,934 | 70,997 | 101,323 | 6,759 | - | 240,013 |
| Past due 60-90 days | 53,486 | 24,278 | 8,316 | 8,351 | - | 94,431 |
| **Total** | **219,510** | **216,206** | **362,236** | **22,944** | **-** | **820,896** |

Loans and Advances Rescheduled:

Restructuring activities include extended and/or rescheduled payment arrangements, approved external management plans, arrangement of terms of loan such as modification and deferral of payments, interest rate, FX type, collateral structure, additional loan etc, there can also be alternatives of granting additional loan or sale of collaterals, sale of debts, sale of company.

Restructuring may be applied for watch-listed loans or loans in nonperforming loan accounts. If restructuring is applied for a watch-listed loan, that loan will stay in performing loan accounts but its terms (FX rate, payment dates, interest rate etc) may be changed.

On the other hand, if restructuring is applied for loans in nonperforming loan accounts that loan will continue to stay at least 6 more months in nonperforming loan accounts and it may be transferred to specified "restructured loan accounts" when the both of the conditions of at least 15% collection of loan amount and at least staying 6 months in nonperforming loan accounts. If an additional loan was granted during restructuring, then at least 15% collection necessity becomes at least 30% of total (existing + additional loan). As of 30 June 2008, the total amount of restructured loans included in legal follow up during the period is YTL44,796 thousand (31 December 2007: YTL207,791 thousand).

Restructuring policies and practices are consistent with the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" published by BRSA.

The Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries and countries.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### Maximum exposure to credit risk

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Credit risk exposures relating to on-balance sheet assets: | | |
| Loans and advances to banks | 3,635,337 | 1,835,641 |
| Loans and advances to customers | | |
| - Credit cards | 7,129,928 | 6,501,088 |
| - Consumer | 5,499,631 | 4,124,581 |
| - Corporate | 21,632,436 | 18,089,232 |
| - Leasing | 2,494,366 | 2,326,437 |
| - Factoring | 970,669 | 804,993 |
| Trading assets: | | |
| - Debt securities | 266,673 | 296,304 |
| Derivative financial instruments | 85,995 | 50,351 |
| Investment securities – debt securities | | |
| - Available-for-sale | 953,276 | 958,948 |
| - Held-to-maturity | 12,772,686 | 13,003,287 |
| Other assets | 1,556,963 | 1,072,784 |
| Credit risk exposures relating to off-balance sheet items: | | |
| Credit related commitments | 14,942,384 | 13,226,182 |
| Other | 746,584 | 789,369 |
| **Total** | **72,686,928** | **63,079,197** |

The above table represent a worse case scenario of credit risk exposure.

### Industry sectors

Group is using the BRSA definitions for the economic sectors to be able to make comparisons with the system figures. These definitions are also in line with NACE codifications which are used within EU. Through the Credit Policy, the Board of Directors sets the sectoral limits on lending and these limits can only be altered by the Board of Directors decision. According to YKB's credit policy, each individual sector should not exceed the targeted level of 10% on the overall corporate portfolio. The sector concentration is accordingly monitored and reported on a regular basis. Particular attention is given to some sectors which are considered as 'low performers' in terms of high non-performing ("NPL") levels. Macroeconomic conditions, NPL levels, expectations about sectors and UCI group policies are taken into consideration in setting and altering the limits. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

| | Financial Institutions | Manufacturing | Real Estate | Wholesale and retail trade | Public Sector | Other Industries | Individuals | Total |
|---|---|---|---|---|---|---|---|---|
| Loans and advances to banks | 3,604,694 | - | - | - | - | 30,643 | - | 3,635,337 |
| Loans and advances to customers | 845,970 | 10,221,742 | 1,779,103 | 1,572,485 | 920,825 | 9,757,346 | 12,629,559 | 37,727,030 |
| Trading assets – debt securities | - | - | - | - | 266,673 | - | - | 266,673 |
| Derivative financial instruments | 45,472 | 27,438 | - | 1,546 | - | 11,056 | 483 | 85,995 |
| Investment securities – debt securities | 173,355 | 15,667 | - | 569 | 13,532,275 | 4,096 | - | 13,725,962 |
| Other assets | 791,919 | - | - | - | 44,693 | 638,723 | 81,628 | 1,556,963 |
| **As of 30 June 2008** | **5,461,410** | **10,264,847** | **1,779,103** | **1,574,600** | **14,764,466** | **10,441,864** | **12,711,670** | **56,997,960** |
| **As of 31 December 2007** | **3,121,731** | **8,191,558** | **280,298** | **1,794,057** | **14,954,043** | **10,028,455** | **10,693,504** | **49,063,646** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

**Geographical sectors**

Geographical concentrations of total assets:

| | Turkey | Italy | Other EU | Other | Total |
|---|---|---|---|---|---|
| Cash and balances with central banks | 4,484,400 | - | 19,920 | 42,115 | 4,546,435 |
| Loans and advances to banks | 707,723 | 11,659 | 1,971,193 | 944,762 | 3,635,337 |
| Trading assets | 266,820 | - | - | 15,924 | 282,744 |
| Derivative financial instruments | 68,380 | - | 16,303 | 1,312 | 85,995 |
| Loans and advances to customers, net | | | | | |
| - Credit cards | 7,129,783 | - | - | 145 | 7,129,928 |
| - Consumer | 5,493,946 | - | - | 5,685 | 5,499,631 |
| - Corporate | 21,011,836 | 11,390 | 223,183 | 386,027 | 21,632,436 |
| - Leasing | 2,490,409 | - | - | 3,957 | 2,494,366 |
| - Factoring | 970,669 | - | - | - | 970,669 |
| Investment securities | | | | | |
| - Available-for-sale | 905,801 | - | 7,667 | 109,736 | 1,023,204 |
| - Held-to-maturity | 12,622,842 | 57,383 | 35,056 | 57,405 | 12,772,686 |
| Investment in associate | - | - | - | 49,082 | 49,082 |
| Goodwill | 1,023,528 | - | - | - | 1,023,528 |
| Other intangible assets | 206,048 | - | - | 319 | 206,367 |
| Premises and equipment | 1,107,917 | - | 652 | 10,740 | 1,119,309 |
| Deferred income tax assets | 453,073 | - | 2,078 | 64 | 455,215 |
| Other assets | 1,495,015 | 1,416 | 44,819 | 15,713 | 1,556,963 |
| **As of 30 June 2008** | **60,438,190** | **81,848** | **2,320,871** | **1,642,986** | **64,483,895** |
| **As of 31 December 2007** | **53,439,471** | **69,556** | **869,624** | **1,442,103** | **55,820,754** |

**Rating of debt securities:**

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| **Moody's rating** | **Trading securities** | **Investment securities** | **Trading securities** | **Investment securities** |
| **Financial assets:** | | | | |
| Aaa | - | 71,556 | - | 69,549 |
| Aa | - | 57,383 | - | 63,623 |
| A | - | 15,121 | - | - |
| Baa | 15,924 | - | - | 86,760 |
| Ba3 (*) | 209,640 | 13,581,902 | 254,215 | 13,742,303 |
| Unrated | 41,109 | - | 42,089 | - |
| **Total** | **266,673** | **13,725,962** | **296,304** | **13,962,235** |

(*) Securities consist of the Republic of Turkey government bonds and treasury bills.

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### B. Market risk

As a commercial Group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate, liquidity and foreign exchange risk.

Market Risk Policy of the Group clearly identifies risk management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of Banking book and trading book. Banking book consists of all assets and liabilities arising from commercial activities, sensitive to interest rate and foreign exchange movements. Trading book, on the other hand, includes the positions held for trading, client servicing purposes or for keeping the market making status.

The trading activity of YKB is realised mainly on FX and Securities, which is tolerated within predefined limits. Risk limits are set as intra-day and end-of-day position basis, as well as on Value at Risk, monitored on a daily basis.

Banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is supposed to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall Value at Risk, covering all balance sheet items and BPV (“Basis Point Value”) methods are used to measure the structural interest rate risk.

Liquidity risk is closely monitored within the Group and a particular attention is paid to keep enough cash and cash equivalent instruments to fund increases in assets, unexpected decrease in liabilities, as well as meeting legal requirements, thereby optimizing the cost of carrying any excess liquidity. Liquidity Policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Derivative instruments are limited to financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group’s risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

As part of the management of market risk, the Group undertakes various hedging strategies. The Group also enters into cross currency interest rate swaps to match the interest rate risk associated with the fixed-rate long-term loans.

(i) Fair value hedges

The Group hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate YTL loans using cross-currency interest rate swaps. Cross currency interest rate swaps pay YTL and receive USD, the fair value movements of YTL pay sides are designated as a hedge of fair value movements of the loans. The fair value of these swaps’ YTL side at 30 June 2008 was YTL(9,236) thousand (31 December 2007: YTL(26,102) thousand). The losses on the cross currency interest rate swaps at 30 June 2008 were YTL(3,491) thousand (31 December 2007: YTL(10,020) thousand). The gains on the YTL fixed loans at 30 June 2008 were YTL3,682 thousand (31 December 2007: YTL9,503 thousand) (Note 9).

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

The Group’s Euro-denominated borrowing is designated as a hedge of the net investment in the Group’s some EUR denominated subsidiaries. The fair value of the borrowing at 30 June 2008 is EUR163 million (31 December 2007: EUR96 million). The foreign exchange loss of YTL29,087 thousand (30 June 2007: YTL6,806 thousand income), net of tax, on translation of the borrowing to YTL at the balance sheet date is recognised in “other reserves” in equity.

The major measurement techniques used to measure and control market risk are outlined below.

***(a) Value-at-risk***

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The VaR limits are set by Board of Directors and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by Risk Management on a daily basis.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the ‘maximum’ amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model of the Group assumes one day ‘holding period’ until positions can be closed. The Group’s assessment of past movements is based on data for the past 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions - a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (Back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group’s market risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for held to maturity portfolio, risk appetite limits are applied. (VaR/ Nominal Positions) Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the six months period is YTL726 thousand in 2008.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions are investigated, and results are reported to the monthly ALCO meetings.

**30 June 2008**

| **(a) Group VaR by risk type** | **6 months to Reporting Date** | | |
|---|---|---|---|
| | **Average** | **High** | **Low** |
| Foreign exchange risk | 296 | 2,477 | 48 |
| Interest rate risk of securities | 79,838 | 110,236 | 56,223 |
| Equities risk | - | - | - |
| **Total VaR** | **89,129** | **111,880** | **65,841** |

| **(b) Trading portfolio VaR by risk type** | **6 months to Reporting Date** | | |
|---|---|---|---|
| | **Average** | **High** | **Low** |
| Foreign exchange risk | 248 | 2,356 | 44 |
| Interest rate risk of trading assets | 726 | 1,032 | 289 |
| Equities risk | - | - | - |
| **Total VaR** | **974** | **3,388** | **333** |

| **(c) Non-trading portfolio VaR by risk type** | **6 months to Reporting Date** | | |
|---|---|---|---|
| | **Average** | **High** | **Low** |
| Foreign exchange risk | - | - | - |
| Interest rate risk of investment securities | 78,867 | 103,542 | 56,222 |
| Equities risk | - | - | - |
| **Total VaR** | **78,867** | **103,542** | **56,222** |

**31 December 2007**

| **(a) Group VaR by risk type** | **12 months to Reporting Date** | | |
|---|---|---|---|
| | **Average** | **High** | **Low** |
| Foreign exchange risk | 1,179 | 4,113 | 366 |
| Interest rate risk of securities | 69,623 | 154,574 | 3,094 |
| Equities risk | - | - | - |
| **Total VaR** | **69,386** | **155,513** | **3,391** |

| **(b) Trading portfolio VaR by risk type** | **12 months to Reporting Date** | | |
|---|---|---|---|
| | **Average** | **High** | **Low** |
| Foreign exchange risk | 1,179 | 4,113 | 366 |
| Interest rate risk of trading assets | 2,021 | 2,538 | 1,587 |
| Equities risk | - | - | - |
| **Total VaR** | **3,200** | **6,651** | **1,953** |

| **(c) Non-trading portfolio VaR by risk type** | **12 months to Reporting Date** | | |
|---|---|---|---|
| | **Average** | **High** | **Low** |
| Foreign exchange risk | - | - | - |
| Interest rate risk of investment securities | 67,602 | 152,036 | 1,507 |
| Equities risk | - | - | - |
| **Total VaR** | **67,602** | **152,036** | **1,507** |

### *(b) Stress tests*

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the Market Risk Policy of the Group, include: FX and Interest rate stress testing, where stress movements are applied to the FX position and to Banking Book. The results of the stress tests are reviewed by ALCO.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 30 June 2008 and 31 December 2007. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

**30 June 2008**

| | Foreign currency | | | | | |
|---|---|---|---|---|---|---|
| | **US$** | **EUR** | **Other** | **Total** | **YTL** | **Total** |
| **Assets** | | | | | | |
| Cash and balances with central banks | 729,973 | 2,550,774 | 48,716 | 3,329,463 | 1,216,972 | 4,546,435 |
| Loans and advances to banks | 2,028,129 | 1,130,690 | 300,897 | 3,459,716 | 175,621 | 3,635,337 |
| Trading assets | 89,019 | 73,934 | - | 162,953 | 119,791 | 282,744 |
| Derivative financial instruments | - | - | - | - | 85,995 | 85,995 |
| Loans and advances to customers (1) | 8,492,729 | 6,155,240 | 408,491 | 15,056,460 | 22,670,570 | 37,727,030 |
| Investment securities | | | | | | |
| - available-for-sale (2) | 286,425 | 71,809 | 76,508 | 434,742 | 588,462 | 1,023,204 |
| - held-to-maturity | 5,322,501 | 1,092,518 | 4,096 | 6,419,115 | 6,353,571 | 12,772,686 |
| Investment in associates (2) | - | - | 49,082 | 49,082 | - | 49,082 |
| Goodwill | - | - | - | - | 1,023,528 | 1,023,528 |
| Other intangible assets | - | - | 48 | 48 | 206,319 | 206,367 |
| Premises and equipment | - | 652 | 10,168 | 10,820 | 1,108,489 | 1,119,309 |
| Deferred income tax assets | - | 2,078 | 64 | 2,142 | 453,073 | 455,215 |
| Other assets | 199,615 | 200,855 | 80,517 | 480,987 | 1,075,976 | 1,556,963 |
| **Total assets** | **17,148,391** | **11,278,550** | **978,587** | **29,405,528** | **35,078,367** | **64,483,895** |
| **Liabilities** | | | | | | |
| Deposits from banks | 245,531 | 43,132 | 128,890 | 417,553 | 176,495 | 594,048 |
| Due to customers | 11,349,907 | 5,510,470 | 562,800 | 17,423,177 | 21,821,751 | 39,244,928 |
| Other borrowed funds | 4,503,808 | 4,661,354 | 47,393 | 9,212,555 | 621,478 | 9,834,033 |
| Debt securities in issue | 886,617 | 784,973 | - | 1,671,590 | - | 1,671,590 |
| Derivative financial instruments | - | - | - | - | 160,599 | 160,599 |
| Financial liabilities designated at fair value | 53,926 | - | - | 53,926 | - | 53,926 |
| Current income taxes payable | - | 768 | 18 | 786 | 68,425 | 69,211 |
| Deferred income tax liabilities | - | 1,821 | 2,132 | 3,953 | 160,380 | 164,333 |
| Other provisions | - | 894 | 90 | 984 | 349,300 | 350,284 |
| Retirement benefit obligations | - | 1,071 | - | 1,071 | 827,518 | 828,589 |
| Insurance technical reserves | 217,959 | 62,087 | - | 280,046 | 512,034 | 792,080 |
| Other liabilities | 386,532 | 476,161 | 27,704 | 890,397 | 4,310,135 | 5,200,532 |
| **Total liabilities** | **17,644,280** | **11,542,731** | **769,027** | **29,956,038** | **29,008,115** | **58,964,153** |
| **Net balance sheet position** | **(495,889)** | **(264,181)** | **209,560** | **(550,510)** | **6,070,252** | **5,519,742** |
| Off-balance sheet derivative instruments net notional position | 185,389 | 515,089 | (45,706) | 654,772 | (826,318) | (171,546) |
| **Net foreign currency position** | **(310,500)** | **250,908** | **163,854** | **104,262** | **5,243,934** | **5,348,196** |

(1) Collective impairment allowance of YTL184,033 thousand calculated on foreign currency denominated loans is presented as YTL balance in the above currency position table.

(2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 30 June 2008, the net foreign currency position of the Group would decrease from YTL104,262 thousand to YTL36,755 thousand.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

**31 December 2007**

| | Foreign currency | | | | | |
|---|---|---|---|---|---|---|
| | **US$** | **EUR** | **Other** | **Total** | **YTL** | **Total** |
| **Assets** | | | | | | |
| Cash and balances with central banks | 86,990 | 1,984,033 | 28,771 | 2,099,794 | 1,640,594 | 3,740,388 |
| Loans and advances to banks | 901,730 | 686,720 | 61,486 | 1,649,936 | 185,705 | 1,835,641 |
| Trading assets | 120,365 | 59,457 | 559 | 180,381 | 135,149 | 315,530 |
| Derivative financial instruments | - | - | - | - | 50,351 | 50,351 |
| Loans and advances to customers (1) | 7,265,901 | 4,788,802 | 297,662 | 12,352,365 | 19,493,966 | 31,846,331 |
| Investment securities | | | | | | |
| - available-for-sale (2) | 259,071 | 73,855 | 108,474 | 441,400 | 598,499 | 1,039,899 |
| - held-to-maturity | 5,654,528 | 1,054,279 | 1,883 | 6,710,690 | 6,292,597 | 13,003,287 |
| Investment in associates (2) | - | - | 38,220 | 38,220 | - | 38,220 |
| Goodwill | - | - | - | - | 1,023,528 | 1,023,528 |
| Other intangible assets | - | - | 30 | 30 | 213,771 | 213,801 |
| Premises and equipment | - | 170 | 9,578 | 9,748 | 1,138,983 | 1,148,731 |
| Deferred income tax assets | - | 2,243 | 59 | 2,302 | 489,961 | 492,263 |
| Other assets | 173,467 | 211,178 | 136,651 | 521,296 | 551,488 | 1,072,784 |
| **Total assets** | **14,462,052** | **8,860,737** | **683,373** | **24,006,162** | **31,814,592** | **55,820,754** |
| **Liabilities** | | | | | | |
| Deposits from banks | 629,285 | 402,860 | 137,706 | 1,169,851 | 92,993 | 1,262,844 |
| Due to customers | 9,064,423 | 4,803,398 | 453,706 | 14,321,527 | 20,201,493 | 34,523,020 |
| Other borrowed funds | 3,092,784 | 3,522,658 | 32,645 | 6,648,087 | 658,856 | 7,306,943 |
| Debt securities in issue | 846,186 | 696,423 | - | 1,542,609 | - | 1,542,609 |
| Derivative financial instruments | - | - | - | - | 264,806 | 264,806 |
| Financial liabilities designated at fair value | 51,273 | - | - | 51,273 | - | 51,273 |
| Current income taxes payable | - | 363 | 255 | 618 | 13,590 | 14,208 |
| Deferred income tax liabilities | - | 1,854 | 2,058 | 3,912 | 128,551 | 132,463 |
| Other provisions | 76,238 | 828 | - | 77,066 | 224,083 | 301,149 |
| Retirement benefit obligations | - | 950 | - | 950 | 801,676 | 802,626 |
| Insurance technical reserves | 224,987 | 59,900 | - | 284,887 | 501,581 | 786,468 |
| Other liabilities | 102,783 | 308,341 | 46,897 | 458,021 | 3,307,650 | 3,765,671 |
| **Total liabilities** | **14,087,959** | **9,797,575** | **673,267** | **24,558,801** | **26,195,279** | **50,754,080** |
| **Net balance sheet position** | **374,093** | **(936,838)** | **10,106** | **(552,639)** | **5,619,313** | **5,066,674** |
| Off-balance sheet derivative instruments net notional position | (245,412) | 1,136,774 | 93,790 | 985,152 | (792,441) | 192,711 |
| **Net foreign currency position** | **128,681** | **199,936** | **103,896** | **432,513** | **4,826,872** | **5,259,385** |

(1) Collective impairment allowance of YTL248,210 thousand calculated on foreign currency denominated loans is presented as YTL balance in the above currency position table.

(2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2007, the net foreign currency position of the Group would decrease from YTL432,513 thousand to YTL367,549 thousand.

At 30 June 2008, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.1931 = US$1, and YTL1.8789 = EUR1 (31 December 2007: YTL1.1355 = US$1, and YTL1.6674 = EUR1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of a total sensitivity limit. Sensitivity analysis is performed according to a scenario of 5% shift in TRL yield curve and 1% shift in FX yield curve. The resulting P/L should not exceed 20% of Bank's Tier 1 Capital.

The table below summarises the Group's exposure to interest rate risk at 30 June 2008 and 31 December 2007. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

| **30 June 2008** | **Up to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 2,519,491 | - | - | - | 2,026,944 | 4,546,435 |
| Loans and advances to banks | 2,688,605 | 257,133 | 88,866 | 23,151 | 577,582 | 3,635,337 |
| Trading assets | 42,136 | 69,317 | 87,541 | 26,570 | 57,180 | 282,744 |
| Derivative financial instruments | 51,234 | 26,294 | 1,983 | 6,484 | - | 85,995 |
| Loans and advances to customer | 13,544,646 | 10,059,384 | 9,167,813 | 4,513,438 | 441,749 | 37,727,030 |
| Investment securities | | | | | | |
| - available-for-sale | 235,448 | 151,268 | 234,590 | 260,776 | 141,122 | 1,023,204 |
| - held-to-maturity | 5,294,770 | 1,185,517 | 2,158,577 | 4,133,822 | - | 12,772,686 |
| Investment in associate | - | - | - | - | 49,082 | 49,082 |
| Goodwill | - | - | - | - | 1,023,528 | 1,023,528 |
| Other intangible assets | - | - | - | - | 206,367 | 206,367 |
| Premises and equipment | - | - | - | - | 1,119,309 | 1,119,309 |
| Deferred income tax assets | - | - | - | - | 455,215 | 455,215 |
| Other assets | 691 | 7,560 | - | - | 1,548,712 | 1,556,963 |
| **Total assets** | **24,377,021** | **11,756,473** | **11,739,370** | **8,964,241** | **7,646,790** | **64,483,895** |
| **Liabilities** | | | | | | |
| Deposits from banks | 299,771 | 145,895 | - | - | 148,382 | 594,048 |
| Due to customers | 30,962,705 | 1,541,203 | 307,949 | 43,023 | 6,390,048 | 39,244,928 |
| Other borrowed funds | 5,506,866 | 4,249,462 | 77,705 | - | - | 9,834,033 |
| Debt securities in issue | 1,671,590 | - | - | - | - | 1,671,590 |
| Derivative financial instruments | 144,101 | 16,332 | 166 | - | - | 160,599 |
| Financial liabilities designated at fair value | - | 53,926 | - | - | - | 53,926 |
| Current income taxes payable | - | - | - | - | 69,211 | 69,211 |
| Deferred income tax liabilities | - | - | - | - | 164,333 | 164,333 |
| Other provisions | - | - | - | - | 350,284 | 350,284 |
| Retirement benefit obligations | - | - | - | - | 828,589 | 828,589 |
| Insurance technical reserves | - | - | - | - | 792,080 | 792,080 |
| Other liabilities | 2,017,229 | - | - | - | 3,183,303 | 5,200,532 |
| **Total liabilities** | **40,602,262** | **6,006,818** | **385,820** | **43,023** | **11,926,230** | **58,964,153** |
| **Net interest repricing gap** | **(16,225,241)** | **5,749,655** | **11,353,550** | **8,921,218** | **(4,279,440)** | **5,519,742** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2007 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 1,458,919 | - | - | - | 2,281,469 | 3,740,388 |
| Loans and advances to banks | 731,045 | 444,023 | 186,126 | 26,622 | 447,825 | 1,835,641 |
| Trading assets | 54,102 | 58,721 | 115,282 | 26,669 | 60,756 | 315,530 |
| Derivative financial instruments | 31,268 | 11,998 | 7,085 | - | - | 50,351 |
| Loans and advances to customers | 11,862,615 | 8,654,571 | 7,587,173 | 3,345,864 | 396,108 | 31,846,331 |
| Investment securities | | | | | | |
| - available-for-sale | 254,374 | 130,426 | 324,495 | 195,279 | 135,325 | 1,039,899 |
| - held-to-maturity | 5,257,269 | 1,805,217 | 1,674,011 | 4,266,790 | - | 13,003,287 |
| Investment in associate | - | - | - | - | 38,220 | 38,220 |
| Goodwill | - | - | - | - | 1,023,528 | 1,023,528 |
| Other intangible assets | - | - | - | - | 213,801 | 213,801 |
| Premises and equipment | - | - | - | - | 1,148,731 | 1,148,731 |
| Deferred income tax assets | - | - | - | - | 492,263 | 492,263 |
| Other assets | 82,952 | 7,480 | 4,198 | 599 | 977,555 | 1,072,784 |
| **Total assets** | **19,732,544** | **11,112,436** | **9,898,370** | **7,861,823** | **7,215,581** | **55,820,754** |
| **Liabilities** | | | | | | |
| Deposits from banks | 813,819 | 365,202 | - | - | 83,823 | 1,262,844 |
| Due to customers | 26,796,979 | 1,885,669 | 249,580 | - | 5,590,792 | 34,523,020 |
| Other borrowed funds | 4,384,536 | 2,859,561 | 62,846 | - | - | 7,306,943 |
| Debt securities in issue | 1,542,609 | - | - | - | - | 1,542,609 |
| Derivative financial instruments | 96,913 | 165,866 | 2,027 | - | - | 264,806 |
| Financial liabilities designated at fair value | - | 51,273 | - | - | - | 51,273 |
| Current income taxes payable | - | - | - | - | 14,208 | 14,208 |
| Deferred income tax liabilities | - | - | - | - | 132,463 | 132,463 |
| Other provisions | - | - | - | - | 301,149 | 301,149 |
| Retirement benefit obligations | - | - | - | - | 802,626 | 802,626 |
| Insurance technical reserves | - | - | - | - | 786,468 | 786,468 |
| Other liabilities | 2,197,147 | 2,200 | 3 | 682 | 1,565,639 | 3,765,671 |
| **Total liabilities** | **35,832,003** | **5,329,771** | **314,456** | **682** | **9,277,168** | **50,754,080** |
| **Net interest repricing gap** | **(16,099,459)** | **5,782,665** | **9,583,914** | **7,861,141** | **(2,061,587)** | **5,066,674** |

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at 30 June 2008 and 31 December 2007 based on yearly contractual rates.

| | 30 June 2008 | | | 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | US$ (%) | EUR (%) | YTL (%) | US$ (%) | EUR (%) | YTL (%) |
| **Assets** | | | | | | |
| Cash and balances with central banks | 1.00 | 1.78 | 8.91 | 1.01 | 1.78 | 9.73 |
| Loans and advances to banks | 2.71 | 3.99 | 18.28 | 5.14 | 4.57 | 17.56 |
| Trading assets | 6.35 | 5.00 | 18.37 | 8.57 | 7.22 | 16.89 |
| Investment securities | | | | | | |
| - available-for-sale | 7.14 | 8.41 | 18.49 | 7.69 | 7.92 | 17.75 |
| - held-to-maturity | 7.18 | 5.86 | 17.97 | 7.49 | 6.09 | 19.04 |
| Loans and advances to customers | 5.75 | 8.07 | 21.37 | 6.97 | 6.75 | 19.80 |
| **Liabilities** | | | | | | |
| Deposits from banks | 5.84 | 6.31 | 5.52 | 5.22 | 4.56 | 17.13 |
| Due to customers | 3.41 | 2.86 | 17.78 | 4.83 | 3.33 | 18.68 |
| Debt securities in issue | 3.68 | 5.88 | - | 5.22 | 4.83 | - |
| Financial liabilities designated at fair value | 6.16 | - | - | 6.16 | - | - |
| Other borrowed funds | 3.56 | 5.85 | 16.36 | 5.35 | 4.84 | 16.02 |

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### iii) Liquidity risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid markets. The liquidity risk is managed within the Asset and Liability Management strategy in accordance with the policies of the market risk. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held. During the monthly meetings of the ALCO, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Within the YKB, the following definitions apply to the components of Liquidity Risk:

1. ***Liquidity Mismatch Risk*** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;
2. ***Liquidity Contingency Risk*** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the bank. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis;
3. ***Market Liquidity Risk*** refers to the risk that the bank may incur losses as a result of the sale of assets deemed to be liquid or in extreme is not able to liquidate such positions due to not sufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Officer ("CRO") division and is not a focus of this Liquidity Policy;

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management, which considers the events that will impact upon the Bank's liquidity position from 1 day up to 3 months. Structural liquidity positions consider the events effecting the Group's liquidity position in long term period. The primary objective is to maintain an adequate ratio between total liabilities and medium- / long-term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimizing the cost of funding.

According to the communiqué of BRSA on liquidity, Banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time buckets. Risk Management performs the calculation of the mentioned ratios on a daily basis and shares the results with Treasury department and senior management.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The following table presents the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

| **30 June 2008** | **Demand and up to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits from banks | 448,234 | 150,529 | - | - | 598,763 |
| Due to customers | 37,516,384 | 1,585,920 | 355,339 | 61,089 | 39,518,732 |
| Other borrowed funds | 3,206,681 | 4,190,195 | 1,232,113 | 2,137,219 | 10,766,208 |
| Debt securities in issue | - | - | 1,188,061 | 900,351 | 2,088,412 |
| Financial liabilities designated at fair value | - | 67,823 | - | - | 67,823 |
| **Total liabilities** | **41,171,299** | **5,994,467** | **2,775,513** | **3,098,659** | **53,039,938** |

| **31 December 2007** | **Demand and up to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits from banks | 1,047,621 | 374,311 | - | - | 1,421,932 |
| Due to customers | 32,442,039 | 2,052,970 | 277,688 | - | 34,772,697 |
| Other borrowed funds | 1,505,491 | 3,548,372 | 1,536,208 | 1,997,403 | 8,587,474 |
| Debt securities in issue | - | - | 1,134,045 | 856,069 | 1,990,114 |
| Financial liabilities designated at fair value | - | 3,128 | 51,625 | - | 54,753 |
| **Total liabilities** | **34,995,151** | **5,978,781** | **2,999,566** | **2,853,472** | **46,826,970** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The following table represents the outstanding derivative cash flows of the Group:

**Derivatives settled on a gross basis**

| 30 June 2008 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Derivatives held for trading: | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| - Outflow | 2,396,572 | 853,403 | 847,955 | 45,236 | - | 4,143,166 |
| - Inflow | 2,325,866 | 827,641 | 849,327 | 43,170 | - | 4,046,004 |
| Interest rate derivatives: | | | | | | |
| - Outflow | 10,765 | 83,156 | 435,611 | 526,044 | 473,175 | 1,528,751 |
| - Inflow | 246,297 | 546,423 | 177,124 | 17,380 | 473,175 | 1,460,399 |
| Derivatives held for hedging: | | | | | | |
| Interest rate derivatives: | | | | | | |
| - Outflow | 10,000 | 15,329 | 52,089 | - | - | 77,418 |
| - Inflow | 9,344 | 62,042 | - | - | - | 71,386 |
| **Total outflow** | **2,417,337** | **951,888** | **1,335,655** | **571,280** | **473,175** | **5,749,335** |
| **Total inflow** | **2,581,507** | **1,436,106** | **1,026,451** | **60,550** | **473,175** | **5,577,789** |

| 31 December 2007 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Derivatives held for trading: | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| - Outflow | 2,868,158 | 906,480 | 233,132 | 114,050 | - | 4,121,820 |
| - Inflow | 2,936,229 | 823,943 | 202,542 | 91,468 | - | 4,054,182 |
| Interest rate derivatives: | | | | | | |
| - Outflow | - | 157,051 | 85,061 | 531,952 | 481,785 | 1,255,849 |
| - Inflow | 223,292 | 293,471 | 104,032 | 45,955 | 481,785 | 1,148,535 |
| Derivatives held for hedging: | | | | | | |
| Interest rate derivatives: | | | | | | |
| - Outflow | 21,218 | 21,128 | 77,417 | - | - | 119,763 |
| - Inflow | 25,926 | 62,453 | 13,625 | - | - | 102,004 |
| **Total outflow** | **2,889,376** | **1,084,659** | **395,610** | **646,002** | **481,785** | **5,497,432** |
| **Total inflow** | **3,185,447** | **1,179,867** | **320,199** | **137,423** | **481,785** | **5,304,721** |

### C. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management Department ("ORM") monitors the Bank's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to the Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Bank's operational risks.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Parent calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 26333 dated 1 November 2006, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Bank for the years ended 2007, 2006 and 2005. As of 30 June 2008, the total amount subject to operational risk is calculated as YTL6,418,028 thousand (31 December 2007: YTL5,056,682 thousand) and the amount of the related capital requirement is YTL513,442 thousand (31 December 2007: YTL404,535 thousand).

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### D. Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

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

The Bank's and its affiliates' regulatory capital position on a consolidated basis at 30 June 2008 and 31 December 2007 was as follows:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Tier I capital | 5,522,613 | 5,093,324 |
| Tier II capital | 3,167,279 | 2,329,005 |
| Deductions | (1,439,894) | (1,424,080) |
| Total regulatory capital | 7,249,998 | 5,998,249 |
| Risk-weighted assets (including market and operational risk) | 55,031,446 | 46,836,390 |
| **Capital adequacy ratio (%)** | **13.17** | **12.81** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

### E. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets:** | | | | |
| Loans and advances to banks | 3,635,337 | 3,582,673 | 1,835,641 | 1,869,468 |
| Investment securities (held-to-maturity) | 12,772,686 | 12,348,106 | 13,003,287 | 13,184,329 |
| Loans and advances to customers | 37,727,030 | 38,060,114 | 31,846,331 | 32,014,078 |
| **Financial liabilities:** | | | | |
| Deposits from banks | 594,048 | 593,823 | 1,262,844 | 1,262,867 |
| Due to customers | 39,244,928 | 39,263,599 | 34,523,020 | 34,550,890 |
| Other borrowed funds (*) | 9,887,959 | 9,902,595 | 7,358,216 | 7,402,082 |
| Debt securities in issue | 1,671,590 | 1,671,590 | 1,542,609 | 1,542,609 |

(*) Includes financial liabilities designated at fair value.

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

#### Loans and advances to banks

The fair value of overnight deposits is considered to approximate its carrying amounts. The estimated fair value of interest bearing placements is based on discounted cash flows using prevailing money market interest rates at the balance sheet date with similar credit risk and remaining maturity.

#### Loans and advances to customers

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar credit risk, currency and remaining maturity to determine their fair value.

#### Investment securities

Fair value for held-to-maturity assets is based on market prices or prices prevailing at the balance sheet date announced by the ISE.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

**Due to customers, deposits from banks, other borrowed funds and debt securities in issue**

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of interest bearing time deposits and other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the balance sheet date with similar credit risk, currency and remaining maturity. The fair value of debt securities in issue is considered to approximate its carrying amounts.

### F. Fiduciary activities

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Investment securities held in custody | 17,853,985 | 17,543,083 |
| Cheques received for collection | 5,559,524 | 4,824,347 |
| Commercial notes received for collection | 1,634,400 | 3,260,890 |
| | **25,047,909** | **25,628,320** |

## NOTE 5 - CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| Cash and cash equivalents | 496,950 | 349,704 |
| Demand deposits with central banks | 695,190 | 550,495 |
| Gold | 46,382 | 6,820 |
| Loans and advances to banks (with original maturity less than three months) | 2,904,579 | 3,163,074 |
| **Total** | **4,143,101** | **4,070,093** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 6 - CASH AND BALANCES WITH CENTRAL BANKS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash in hand - foreign currency | 152,808 | 135,929 |
| Cash in hand - YTL | 332,262 | 300,007 |
| Cheques received - foreign currency | 1,560 | 1,080 |
| Other | 10,320 | 7,927 |
| | **496,950** | **444,943** |
| **Demand deposits at central banks** | | |
| Foreign currency | 695,190 | 542,456 |
| | **695,190** | **542,456** |
| **Reserve deposits at central banks** | | |
| Foreign currency | 2,479,905 | 1,420,329 |
| YTL | 874,390 | 1,332,660 |
| | **3,354,295** | **2,752,989** |
| | **4,546,435** | **3,740,388** |

Reserve deposits at central banks are as follows:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| The Central Bank of Republic of Turkey | 3,326,151 | 2,727,162 |
| De Nederlandsche Bank | 19,554 | 19,454 |
| The Central Bank of the Russian Federation | 5,899 | 3,246 |
| The National Bank of Azerbaijan | 2,691 | 3,127 |
| | **3,354,295** | **2,752,989** |

These funds are not available to finance the Group's day-to-day operations.

**Turkish:**

Reserve requirements of Central Bank of the Republic of Turkey ("CBRT") represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the CBRT. In accordance with the current legislation, the mandatory reserve deposit rates for Turkish lira and foreign currency deposits are 6% (31 December 2007: 6%) and 11% (31 December 2007: 11%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

**Foreign:**

Reserve requirements of De Nederlandsche Bank represents reserve deposits equivalent to 2% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 6 - CASH AND BALANCES WITH CENTRAL BANKS (Continued)

Reserve requirements of Central Bank of the Russian Federation represents reserve deposits equivalent to 4.5% of borrowings from non-resident bank from all currencies, 4% of individual deposits denominated in Russia Rubles, 5.5% of the deposits of legal entities for all currencies.

Reserve requirements of National Bank of Azerbaijan; represent reserve deposits equivalent to 10% of the statutory balances of customer accounts, due to banks and other funds borrowed.

## NOTE 7 - LOANS AND ADVANCES TO BANKS

| | 30 June 2008 | | | 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | **Domestic** | **Foreign** | **Total** | **Domestic** | **Foreign** | **Total** |
| **YTL:** | | | | | | |
| Nostro/ Demand deposits | 55,314 | 3,017 | 58,331 | 48,010 | 263 | 48,273 |
| Time deposits | 18,441 | 71,712 | 90,153 | 59,137 | 64,567 | 123,704 |
| Interbank money market | 27,137 | - | 27,137 | 13,728 | - | 13,728 |
| | **100,892** | **74,729** | **175,621** | **120,875** | **64,830** | **185,705** |
| **Foreign currency:** | | | | | | |
| Nostro/ Demand deposits | 11,111 | 508,140 | 519,251 | 37,494 | 362,058 | 399,552 |
| Time deposits | 595,207 | 2,100,984 | 2,696,191 | 439,319 | 391,323 | 830,642 |
| Interbank money market | 513 | 243,761 | 244,274 | - | 419,742 | 419,742 |
| | **606,831** | **2,852,885** | **3,459,716** | **476,813** | **1,173,123** | **1,649,936** |
| | **707,723** | **2,927,614** | **3,635,337** | **597,688** | **1,237,953** | **1,835,641** |

## NOTE 8 - TRADING ASSETS

| | **30 June 2008** | **31 December 2007** |
|---|---|---|
| Government bonds and treasury bills | 121,485 | 152,188 |
| Government bonds and treasury bills sold under repurchase agreements | 104,079 | 102,027 |
| Other debt securities | 41,109 | 42,089 |
| **Total debt securities** | **266,673** | **296,304** |
| Equity securities - listed | 16,071 | 19,226 |
| **Total equity securities** | **16,071** | **19,226** |
| **Total trading assets** | **282,744** | **315,530** |

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and carried for resale to customers.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group utilises the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients' needs therefore the Group does not carry open position in the options book.

"Interest rate cap and floor arrangements" provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

**30 June 2008**

| | **Contract/ notional amount** | **Fair values** | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| ***Derivatives held for trading*** | | | |
| Foreign exchange derivatives: | | | |
| Currency forwards | 2,924,464 | 48,818 | 23,067 |
| Currency swaps | 1,246,313 | 2,645 | 14,075 |
| OTC currency options | 3,772,909 | 1,423 | 950 |
| Other derivatives | 245,484 | - | - |
| **Total OTC derivatives** | **8,189,170** | **52,886** | **38,092** |
| Interest rate derivatives: | | | |
| Interest rate swaps | 113,082 | - | - |
| Cross-currency interest rate swaps | 2,876,068 | 32,074 | 112,236 |
| **Total OTC derivatives** | **2,989,150** | **32,074** | **112,236** |
| **Total derivative assets/ (liabilities) held for trading** | **11,178,320** | **84,960** | **150,328** |
| ***Derivatives held for hedging*** | | | |
| Derivatives designated as fair value hedges: | | | |
| Interest rate swaps | 148,804 | 1,035 | 10,271 |
| **Total derivative assets/ (liabilities) held for hedging** | **148,804** | **1,035** | **10,271** |
| **Total recognised derivative assets/ (liabilities)** | **11,327,124** | **85,995** | **160,599** |
| Current | | 53,535 | 107,608 |
| Non-current | | 32,460 | 52,991 |
| **Total recognised derivative assets/ (liabilities)** | | **85,995** | **160,599** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

**31 December 2007**

| | Contract/ notional amount | Fair values | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| ***Derivatives held for trading*** | | | |
| Foreign exchange derivatives: | | | |
| Currency forwards | 2,902,202 | 19,555 | 62,666 |
| Currency swaps | 3,173,500 | 11,624 | 8,667 |
| OTC currency options | 2,092,313 | 1,061 | 979 |
| Other derivatives | 7,987 | - | - |
| **Total OTC derivatives** | **8,176,002** | **32,240** | **72,312** |
| Interest rate derivatives: | | | |
| Interest rate swaps | 1,074,030 | 6,971 | 12,817 |
| Cross-currency interest rate swaps | 1,330,354 | 9,456 | 151,891 |
| **Total OTC derivatives** | **2,404,384** | **16,427** | **164,708** |
| **Total derivative assets/ (liabilities) held for trading** | **10,580,386** | **48,667** | **237,020** |
| ***Derivatives held for hedging*** | | | |
| Derivatives designated as fair value hedges: | | | |
| Interest rate swaps | 221,767 | 1,684 | 27,786 |
| **Total derivative assets/ (liabilities) held for hedging** | **221,767** | **1,684** | **27,786** |
| **Total recognised derivative assets/ (liabilities)** | **10,802,153** | **50,351** | **264,806** |
| Current | | 39,481 | 135,900 |
| Non-current | | 10,870 | 128,906 |
| **Total recognised derivative assets/ (liabilities)** | | **50,351** | **264,806** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

| 30 June 2008 | Corporate | Consumer | Credit cards | Leasing | Factoring | Total |
|---|---|---|---|---|---|---|
| Performing loans | 21,535,426 | 5,191,151 | 6,697,517 | 2,325,803 | 974,960 | 36,724,857 |
| Watch listed loans | 216,801 | 293,455 | 407,857 | 108,988 | - | 1,027,101 |
| Loans under legal follow - up | 693,210 | 134,472 | 498,871 | 143,111 | 4,231 | 1,473,895 |
| **Gross** | **22,445,437** | **5,619,078** | **7,604,245** | **2,577,902** | **979,191** | **39,225,853** |
| Specific allowance for impairment | (544,255) | (74,902) | (377,535) | (71,979) | (4,231) | (1,072,902) |
| Collective allowance for impairment | (268,746) | (44,545) | (96,782) | (11,557) | (4,291) | (425,921) |
| **Total allowance for impairment** | **(813,001)** | **(119,447)** | **(474,317)** | **(83,536)** | **(8,522)** | **(1,498,823)** |
| **Net** | **21,632,436** | **5,499,631** | **7,129,928** | **2,494,366** | **970,669** | **37,727,030** |

| 31 December 2007 | Corporate | Consumer | Credit cards | Leasing | Factoring | Total |
|---|---|---|---|---|---|---|
| Performing loans | 18,036,931 | 3,911,382 | 6,235,113 | 2,229,133 | 809,032 | 31,221,591 |
| Watch listed loans | 159,360 | 227,691 | 362,236 | 88,619 | - | 837,906 |
| Loans under legal follow - up | 1,181,407 | 101,694 | 405,244 | 84,157 | 4,073 | 1,776,575 |
| **Gross** | **19,377,698** | **4,240,767** | **7,002,593** | **2,401,909** | **813,105** | **33,836,072** |
| Specific allowance for impairment | (993,666) | (56,706) | (312,898) | (60,316) | (4,073) | (1,427,659) |
| Collective allowance for impairment | (294,800) | (59,480) | (188,607) | (15,156) | (4,039) | (562,082) |
| **Total allowance for impairment** | **(1,288,466)** | **(116,186)** | **(501,505)** | **(75,472)** | **(8,112)** | **(1,989,741)** |
| **Net** | **18,089,232** | **4,124,581** | **6,501,088** | **2,326,437** | **804,993** | **31,846,331** |

**Fair value of collateral:**

| 30 June 2008 | Corporate | Consumer | Credit cards | Leasing | Factoring | Total |
|---|---|---|---|---|---|---|
| Watch listed loans | 57,759 | 227,145 | - | 60,520 | - | 345,424 |
| Loans under legal follow - up | 140,275 | 37,088 | - | 58,801 | - | 236,164 |
| **Total** | **198,034** | **264,233** | **-** | **119,321** | **-** | **581,588** |

| 31 December 2007 | Corporate | Consumer | Credit cards | Leasing | Factoring | Total |
|---|---|---|---|---|---|---|
| Watch listed loans | 47,131 | 114,280 | - | 45,634 | - | 207,045 |
| Loans under legal follow - up | 263,244 | 25,993 | - | 29,757 | - | 318,994 |
| **Total** | **310,375** | **140,273** | **-** | **75,391** | **-** | **526,039** |

As of 30 June 2008, there is no cash risk exposure of the Bank to Çukurova Group in the scope of Financial Restructuring Agreement ("FRA") (31 December 2007: US$219,009,971). Çukurova Holding A.Ş. has closed its cash risk exposure in the scope of FRA by an early repayment of USD224,624,222.75 and YTL3,774,885.85 at 28 April 2008. As a result of this early repayment the pledges on the collaterals were abolished since the non-cash risks amounting to US$1,575,527.93 and YTL736,087.07 were collateralized.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Included in the performing loans and advances to corporate customers are loans amounting to YTL75,000 thousand (31 December 2007: YTL115,000 thousand) which have been designated as financial assets at fair value. Those loans have been matched with interest rate swaps amounting to YTL77,418 thousand (31 December 2007: YTL119,763 thousand) as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the loans and advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the income statement. By designating those loans and advances at fair value, the movement in the fair value of the long-term debt will be recorded in the income statement.

Reconciliation of allowance account for losses on loans and advances by class is as follows:

| | **2008** | | | | | | **2007** |
|---|---|---|---|---|---|---|---|
| | **Corporate** | **Consumer** | **Credit cards** | **Leasing** | **Factoring** | **Total** | **Total** |
| **At 1 January as previously reported** | **1,288,466** | **116,186** | **501,505** | **75,472** | **8,112** | **1,989,741** | **1,936,478** |
| - effect of restatement (Note 27) | - | - | - | - | - | - | 557 |
| **At 1 January as restated** | **1,288,466** | **116,186** | **501,505** | **75,472** | **8,112** | **1,989,741** | **1,937,035** |
| Provision for loan impairment | 76,665 | 57,120 | 174,028 | 22,361 | 376 | 330,550 | 197,594 |
| Amounts recovered during the period | (64,140) | (53,444) | (191,958) | (9,927) | (16) | (319,485) | (102,539) |
| Loans written off during the period as uncollectible (-) | (490,345) | (500) | (9,268) | (4,370) | - | (504,483) | (82,338) |
| Exchange differences | 2,355 | 85 | 10 | - | 50 | 2,500 | (2,062) |
| **At 30 June** | **813,001** | **119,447** | **474,317** | **83,536** | **8,522** | **1,498,823** | **1,947,690** |

As of 28 March 2008, the Bank sold out a non-performing loan portfolio amounting to YTL429,229 thousand selected out of its commercial, corporate and SME problematic loan stocks via adjudication as of 7 March 2008. The corresponding portfolio has eventuated as YTL421,167 thousand after deduction of amounts for which sales transactions were realised except the real estate having right of repurchase. As of the date of the sale, the Bank has recognised provision amounting to YTL376,395 thousand for the related loans stock. As of 28 March 2008, the portion amounting to YTL2,203 thousand out of the total amount of YTL60,500 thousand is kept as the value for the real estate with right to repurchase and the remaining portion amounting to YTL58,297 thousand is collected. After the deduction of mentioned amounts, the portfolio amounting to YTL362,468 thousand has been included in the table above in "Loans written off during the period as uncollectible" line.

| | **30 June 2008** | **31 December 2007** |
|---|---|---|
| Gross investment in direct finance leases | 2,966,876 | 2,810,321 |
| Unearned finance income | (497,161) | (496,584) |
| | **2,469,715** | **2,313,737** |
| Interest accrual on receivables | 28,905 | 23,929 |
| Receivables from outstanding lease payments | 79,282 | 64,243 |
| Provision for impaired lease receivables | (83,536) | (75,472) |
| **Net investment in direct finance leases** | **2,494,366** | **2,326,437** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| 2008 | 632,188 | 1,102,293 |
| 2009 | 961,487 | 772,343 |
| 2010 and over | 1,229,289 | 851,081 |
| Less: unearned finance income | (497,161) | (496,584) |
| **Investment in performing lease receivables** | **2,325,803** | **2,229,133** |

## NOTE 11 - INVESTMENT SECURITIES

### (i) Securities available-for-sale

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Debt securities - at fair value - listed: | 953,276 | 958,948 |
| Government bonds and treasury bills | 546,769 | 601,949 |
| Eurobonds | 303,091 | 282,480 |
| Other | 103,416 | 74,519 |
| Equity securities - at fair value: | 69,928 | 80,951 |
| Listed | 49,650 | 60,701 |
| Unlisted | 20,278 | 20,250 |
| **Total securities available-for-sale** | **1,023,204** | **1,039,899** |

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group.

Net gains/losses from changes in the fair value of available-for-sale investment securities, net of tax is YTL(22,895) thousand (31 December 2007: YTL7,372 thousand). There are no impairments recognised for available-for-sale debt securities.

The principal available-for-sale equity shares at 30 June 2008 and 31 December 2007 are as follows:

| Name of the company | Nature of Business | 30 June 2008 Control rates (%) | 31 December 2007 Control rates (%) | 30 June 2008 | 31 December 2007 |
|---|---|---|---|---|---|
| **Listed** | | | | | |
| Yapı Kredi Koray | Real estate management | 30.45 | 30.45 | 31,409 | 33,855 |
| Mastercard Inc. | Credit Card Services | 0.06 | 0.11 | 18,182 | 26,744 |
| Other | | | | 59 | 102 |
| | | | | **49,650** | **60,701** |
| **Unlisted** | | | | | |
| ISE Settlement and Custody Bank Inc. | Custody | 4.86 | 4.86 | 12,360 | 12,360 |
| Kredi Kayıt Bürosu A.Ş. | Credit Card Services | 18.18 | 18.18 | 2,751 | 2,751 |
| Türkiye Genel Sigorta A.Ş. | Insurance | 0.01 | 0.01 | 25 | 25 |
| Other | | | | 5,142 | 5,114 |
| | | | | **20,278** | **20,250** |
| | | | | **69,928** | **80,951** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 11 - INVESTMENT SECURITIES (Continued)

### (ii) Securities held-to-maturity

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Debt securities - at amortised cost - listed: | 12,772,686 | 13,003,287 |
| Government bonds and treasury bills | 7,141,891 | 5,806,239 |
| Eurobonds | 4,986,296 | 5,298,995 |
| Government bonds and treasury bills sold under repurchase agreements | 498,750 | 1,764,891 |
| Foreign government bonds | 145,749 | 133,162 |
| **Total securities held-to-maturity** | **12,772,686** | **13,003,287** |
| **Total investment securities** | **13,795,890** | **14,043,186** |

The movement in held-to-maturity securities as of 30 June is as follows:

| | 2008 | 2007 |
|---|---|---|
| **At 1 January as previously reported** | **13,003,287** | **16,260,889** |
| - effect of restatement (Note 27) | - | 703,577 |
| **Balance at 1 January as restated** | **13,003,287** | **16,964,466** |
| Additions | 422,485 | 2,821,905 |
| Disposals / redemption | (1,020,178) | (5,049,241) |
| Exchange differences on monetary assets | 367,092 | (494,564) |
| **Balance at 30 June** | **12,772,686** | **14,242,566** |

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey.

Gains and losses from investment securities compromise de-recognition of available-for-sale financial assets.

## NOTE 12 - INVESTMENT IN ASSOCIATE

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January** | **38,220** | **41,352** |
| Share of results | 5,418 | 2,453 |
| Dividends paid | (1,495) | (1,191) |
| Exchange difference | 6,939 | (2,442) |
| **Balance at 30 June** | **49,082** | **40,172** |

The Group's interest in Banque de Commerce, its principal associate, is as follows:

| | Total Assets | Equity | Revenues | Net Profit |
|---|---|---|---|---|
| 30 June 2008 | 2,975,682 | 137,166 | 45,513 | 18,748 |
| 31 December 2007 | 2,229,733 | 124,616 | 94,005 | 10,129 |
| 30 June 2007 | 2,490,175 | 130,980 | 45,661 | 11,493 |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 13 - GOODWILL

| | 2008 | 2007 |
|---|---|---|
| **Net book amount at 1 January** | **1,023,528** | **1,023,528** |
| Impairment charge | - | - |
| **At 30 June** | **1,023,528** | **1,023,528** |

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The Group allocated goodwill to its cash-generating units ("CGU") which are represented by each primary reporting segment except foreign operations (Note 37).

There was no impairment identified at 30 June 2008 (30 June 2007: None).

## NOTE 14 - OTHER INTANGIBLE ASSETS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Cost | 318,644 | 313,408 |
| Accumulated amortisation and impairment | (112,277) | (99,607) |
| **Net book amount** | **206,367** | **213,801** |

Movements of other intangible assets were as follows:

| **30 June 2008** | **Rights and licenses** | **Software** | **Trademarks and customer relationships related intangibles** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January** | **110,275** | **40,049** | **163,084** | **313,408** |
| Additions | 11,593 | 2,670 | - | 14,263 |
| Disposals | (8,540) | (602) | - | (9,142) |
| Translation differences | - | 115 | - | 115 |
| **At 30 June** | **113,328** | **42,232** | **163,084** | **318,644** |
| **Accumulated amortisation and impairment** | | | | |
| **At 1 January** | **(41,067)** | **(21,847)** | **(36,693)** | **(99,607)** |
| Amortisation charge (Note 33) | (9,982) | (3,444) | (8,154) | (21,580) |
| Disposals | 8,421 | 601 | - | 9,022 |
| Translation differences | - | (112) | - | (112) |
| **At 30 June** | **(42,628)** | **(24,802)** | **(44,847)** | **(112,277)** |
| **Net book amount at 30 June** | **70,700** | **17,430** | **118,237** | **206,367** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 14 - OTHER INTANGIBLE ASSETS (Continued)

| 30 June 2007 | Rights and licences | Software | Trademarks and customer relationships related intangibles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January as previously reported** | **91,002** | **78,697** | **163,084** | **332,783** |
| - effect of restatement (Note 27) | - | 115 | - | 115 |
| **At 1 January as restated** | **91,002** | **78,812** | **163,084** | **332,898** |
| Additions | 5,578 | 382 | - | 5,960 |
| Disposals | (8) | - | - | (8) |
| Transfers | (4,589) | 4,642 | - | 53 |
| Translation differences | - | (49) | - | (49) |
| **At 30 June** | **91,983** | **83,787** | **163,084** | **338,854** |
| **Accumulated amortisation and impairment** | | | | |
| **At 1 January** | **(59,765)** | **(73,467)** | **(20,385)** | **(153,617)** |
| - effect of restatement (Note 27) | - | (61) | - | (61) |
| **At 1 January as restated** | **(59,765)** | **(73,528)** | **(20,385)** | **(153,678)** |
| Amortisation charge (Note 33) | (6,927) | (1,738) | (8,154) | (16,819) |
| Disposals | 5 | - | - | 5 |
| Transfers | 4,245 | (4,247) | - | (2) |
| Translation differences | - | 46 | - | 46 |
| **At 30 June** | **(62,442)** | **(79,467)** | **(28,539)** | **(170,448)** |
| **Net book amount at 30 June** | **29,541** | **4,320** | **134,545** | **168,406** |

The Group assigned a consultancy firm for the valuation of intangible assets determined as a credit card trademark, customer base and relationship that can be measured reliably and for which the future economic benefit is embodied in the asset. In line with the report dated 13 February 2006 the Bank recognised YTL163,084 thousand of intangible assets in its consolidated financial statements. Identified intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years. As of 30 June 2008, the net book value of these intangible assets amounts to YTL118,237 thousand (31 December 2007: YTL126,391 thousand).

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 15 - PREMISES AND EQUIPMENT

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Cost | 3,978,704 | 3,980,047 |
| Accumulated depreciation and impairment | (2,859,395) | (2,831,316) |
| **Net book amount** | **1,119,309** | **1,148,731** |

**30 June 2008**

| | Land and buildings | Office equipments | Furniture and fixtures, vehicles and other | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 January** | **3,008,795** | **587,197** | **308,021** | **76,034** | **3,980,047** |
| Additions | - | 26,160 | 17,394 | 795 | 44,349 |
| Disposals | (33,560) | (5,824) | (5,892) | (3,679) | (48,955) |
| Transfers | 450 | (5,503) | 5,681 | 856 | 1,484 |
| Translation difference | 1,255 | 385 | (440) | 579 | 1,779 |
| **At 30 June** | **2,976,940** | **602,415** | **324,764** | **74,585** | **3,978,704** |
| **Accumulated depreciation and impairment** | | | | | |
| **At 1 January** | **(2,093,780)** | **(434,410)** | **(255,013)** | **(48,113)** | **(2,831,316)** |
| Depreciation charge (Note 33) | (23,963) | (22,781) | (6,708) | (5,915) | (59,367) |
| Disposals | 11,888 | 5,194 | 5,873 | 3,588 | 26,543 |
| Transfers | (450) | 3,645 | (3,825) | (854) | (1,484) |
| Recoveries from sales | 8,971 | - | - | - | 8,971 |
| Impairment charge, net (Note 33) | (1,872) | - | - | - | (1,872) |
| Translation difference | (392) | (296) | 395 | (577) | (870) |
| **At 30 June** | **(2,099,598)** | **(448,648)** | **(259,278)** | **(51,871)** | **(2,859,395)** |
| **Net book amount at 30 June** | **877,342** | **153,767** | **65,486** | **22,714** | **1,119,309** |

**30 June 2007**

| | Land and buildings | Office equipments | Furniture and fixtures, vehicles and other | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 January as previously reported** | **3,369,374** | **613,102** | **295,130** | **128,791** | **4,406,397** |
| - effect of restatement | - | 1,118 | 896 | - | 2,014 |
| **At 1 January as restated** | **3,369,374** | **614,220** | **296,026** | **128,791** | **4,408,411** |
| Additions | 584 | 33,573 | 4,076 | 6,815 | 45,048 |
| Disposals | (17,933) | (24,282) | (4,580) | (2,446) | (49,241) |
| Transfers | - | 2,887 | (2,940) | - | (53) |
| Translation difference | (1,056) | (226) | (384) | (202) | (1,868) |
| **At 30 June** | **3,350,969** | **626,172** | **292,198** | **132,958** | **4,402,297** |
| **Accumulated depreciation and impairment** | | | | | |
| **At 1 January as previously reported** | **(2,330,310)** | **(483,757)** | **(238,799)** | **(100,008)** | **(3,152,874)** |
| - effect of restatement | - | (702) | (761) | - | (1,463) |
| **At 1 January as restated** | **(2,330,310)** | **(484,459)** | **(239,560)** | **(100,008)** | **(3,154,337)** |
| Depreciation charge (Note 33) | (27,585) | (25,598) | (9,056) | (7,245) | (69,484) |
| Disposals | 9,034 | 23,867 | 4,335 | 1,897 | 39,133 |
| Transfers | - | (2,736) | 2,738 | - | 2 |
| Recoveries from sales | 1,111 | - | - | - | 1,111 |
| Impairment charge, net (Note 33) | (1,011) | - | - | - | (1,011) |
| Translation difference | 296 | 186 | 352 | 202 | 1,036 |
| **At 30 June** | **(2,348,465)** | **(488,740)** | **(241,191)** | **(105,154)** | **(3,183,550)** |
| **Net book amount at 30 June** | **1,002,504** | **137,432** | **51,007** | **27,804** | **1,218,747** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 15 - PREMISES AND EQUIPMENT (Continued)

At 30 June 2008, total impairment provision on premises and equipment amounts to YTL658,055 thousand (31 December 2007: YTL666,250 thousand).

Leased assets included in the furniture, fixtures, vehicles and equipment, where the Group is the lessee, amounted to YTL129,119 thousand (31 December 2007: YTL133,961 thousand).

## NOTE 16 - OTHER ASSETS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Accounts receivable | 237,152 | 170,999 |
| Prepaid expenses | 171,514 | 131,630 |
| Due from insurance policyholders | 158,860 | 189,332 |
| Advances given | 101,544 | 75,483 |
| Asset held for resale, net (*) | 91,312 | 146,617 |
| Payments for credit card settlements | 57,216 | 43,847 |
| Other | 739,365 | 314,876 |
| | **1,556,963** | **1,072,784** |
| Current | 1,463,614 | 808,523 |
| Non-current | 93,349 | 264,261 |

(*) Assets held for resale represent mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law. Also, by the decision of the Board of Directors at 3 October 2007; assets of Yapı Kredi Bank Deutschland A.G., which is owned 65.42% by the Bank and 34.58% by Yapı Kredi Holding B.V. amounting to YTL78,533 thousand are included in the financial statements as of 31 December 2007 as assets held for sale according to the commerce agreement with Avenue Europe Investment LP. Moreover, the sale of Yapı Kredi Bank Deutschland A.G. finalised as of 29 February 2008. The total assets of Yapı Kredi Bank Deutschland A.G. are not included in the table below.

Movements in assets held for resale at 30 June were as follows:

| | 2008 | 2007 |
|---|---|---|
| **Cost** | | |
| **At 1 January** | **128,938** | **497,072** |
| Additions | 53,102 | 8,913 |
| Disposals | (64,996) | (19,868) |
| Translation difference | (4) | 1,262 |
| **At 30 June** | **117,040** | **487,379** |
| **Impairment** | | |
| **At 1 January** | **(60,854)** | **(314,531)** |
| Impairment charge for the period, net (Note 33) | (522) | - |
| Disposals | 35,648 | 6,403 |
| Translation difference | - | (1,262) |
| **At 30 June** | **(25,728)** | **(309,390)** |
| **Net book amount at 30 June** | **91,312** | **177,989** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 17 - DEPOSITS FROM BANKS

| | 30 June 2008 | | | 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | **Demand** | **Term** | **Total** | **Demand** | **Term** | **Total** |
| **Foreign currency:** | | | | | | |
| Domestic banks | 15,456 | 2,957 | 18,413 | 28,404 | 393,014 | 421,418 |
| Foreign banks | 10,489 | 181,910 | 192,399 | 16,048 | 74,417 | 90,465 |
| Funds deposited under repurchase agreements | - | 206,741 | 206,741 | - | 657,968 | 657,968 |
| | **25,945** | **391,608** | **417,553** | **44,452** | **1,125,399** | **1,169,851** |
| **YTL:** | | | | | | |
| Domestic banks | 5,484 | 5,503 | 10,987 | 7,167 | 37,791 | 44,958 |
| Foreign banks | 116,953 | 48,555 | 165,508 | 32,204 | 7,313 | 39,517 |
| Funds deposited under repurchase agreements | - | - | - | - | 8,518 | 8,518 |
| | **122,437** | **54,058** | **176,495** | **39,371** | **53,622** | **92,993** |
| | **148,382** | **445,666** | **594,048** | **83,823** | **1,179,021** | **1,262,844** |
| Current | 148,382 | 445,666 | 594,048 | 83,823 | 1,179,021 | 1,262,844 |
| Non-current | - | - | - | - | - | - |

## NOTE 18 - DUE TO CUSTOMERS

| | 30 June 2008 | | | 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | **Demand** | **Term** | **Total** | **Demand** | **Term** | **Total** |
| **Foreign currency deposits:** | | | | | | |
| Saving deposits | 1,907,128 | 7,604,145 | 9,511,273 | 1,506,940 | 6,934,478 | 8,441,418 |
| Commercial deposits | 1,756,307 | 6,155,165 | 7,911,472 | 1,744,676 | 4,133,714 | 5,878,390 |
| Public sector deposits | 432 | - | 432 | 1,719 | - | 1,719 |
| | **3,663,867** | **13,759,310** | **17,423,177** | **3,253,335** | **11,068,192** | **14,321,527** |
| **YTL deposits:** | | | | | | |
| Saving deposits | 996,293 | 12,069,271 | 13,065,564 | 930,469 | 10,345,803 | 11,276,272 |
| Commercial deposits | 1,146,332 | 6,628,503 | 7,774,835 | 1,185,605 | 5,920,460 | 7,106,065 |
| Funds deposited under repurchase agreements | - | 70,120 | 70,120 | - | 1,413,225 | 1,413,225 |
| Public sector deposits | 583,556 | 327,676 | 911,232 | 221,383 | 184,548 | 405,931 |
| | **2,726,181** | **19,095,570** | **21,821,751** | **2,337,457** | **17,864,036** | **20,201,493** |
| | **6,390,048** | **32,854,880** | **39,244,928** | **5,590,792** | **28,932,228** | **34,523,020** |
| Current | 6,390,048 | 32,503,908 | 38,893,956 | 5,590,792 | 28,682,648 | 34,273,440 |
| Non-current | - | 350,972 | 350,972 | - | 249,580 | 249,580 |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 19 - OTHER BORROWED FUNDS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| **Foreign institutions and banks** | | |
| Syndication loans | 1,851,616 | 1,717,122 |
| Subordinated debt | 1,997,868 | 1,772,914 |
| Other | 5,233,430 | 2,908,352 |
| **Total foreign** | **9,082,914** | **6,398,388** |
| Domestic banks | 553,257 | 509,323 |
| Interbank money market | 197,862 | 399,232 |
| **Total domestic** | **751,119** | **908,555** |
| | **9,834,033** | **7,306,943** |
| Current | 6,069,384 | 4,570,391 |
| Non-current | 3,764,649 | 2,736,552 |

Funds borrowed from foreign institutions include two syndicated credit facilities, the first of which in the amount of US$800 million club-term loan facility dated 24 September 2007, with an interest rate of annual Libor+0.25% provided by 31 international banks with Standard Chartered Bank Corporation Europe Limited acting as agent, and matures on 24 September 2008 and the second of which in the amount of US$700 million club-term loan facility dated 19 December 2006, with an interest rate of annual Libor+0.425% provided by 16 international banks with The Bank of Tokyo Mitsubishi UFJ Ltd. acting as agent, and matures on 24 December 2008.

At 30 March 2006, YKB obtained a subordinated loan amounting to EUR500 million, with ten years maturity and a repayment option at the end of five years. The interest rate is determined as EURIBOR+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank at 28 April 2006 amounting to EUR350 million, with ten years maturity and repayment option at the end of five years has been transferred to YKB. The interest rate is determined as EURIBOR+2.25% for the first five years.

The loan was obtained from Goldman Sachs International Bank with Unicredito Italiano S.p.A. as guarantor. In addition, the Bank obtained a subordinated loan on 25 June 2007 amounting to EUR200 million, with ten years maturity and repayment option at the end of five years. The interest rate is determined as EURIBOR+1.85% for the first five years. The loan was obtained from Citibank, N.A., London Branch with UniCredito Italiano S.p.A as guarantor. With the written approvals of the BRSA dated 3 April 2006, 2 May 2006 and 19 June 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of "Capital Adequacy Regulation".

Funds borrowed from domestic banks represent funds obtained from Export Credit Bank of Turkey (Türk Eximbank) in context of Export Financing and International Loans ("EFIL") sourced by World Bank to finance certain export loans provided to customers in line with the prevailing regulations

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 20 - DEBT SECURITIES IN ISSUE

| | | | Average interest rate (%) | |
|---|---|---|---|---|
| | **30 June 2008** | **31 December 2007** | **30 June 2008 (*)** | **31 December 2007 (*)** |
| US$175,000,000 Series 2006-A Floating Rate Notes Due 2014 | 209,678 | 200,078 | 2.93 | 5.23 |
| US$200,000,000 Series 2006-B Floating Rate Notes Due 2014 | 239,631 | 228,660 | 2.90 | 5.20 |
| US$115,000,000 Series 2006-C Floating Rate Notes Due 2013 | 137,769 | 131,462 | 3.03 | 5.33 |
| €300,000,000 Series 2006-D Floating Rate Notes Due 2014 | 567,458 | 503,452 | 5.08 | 4.84 |
| €115,000,000 Series 2007-A Floating Rate Notes Due 2015 | 217,516 | 192,977 | 5.04 | 4.80 |
| US$250,000,000 of Series 2007-B Floating Rate Notes Due 2015 | 299,538 | 285,980 | 2.87 | 5.17 |
| | **1,671,590** | **1,542,609** | | |
| Current | - | - | | |
| Non-current | 1,671,590 | 1,542,609 | | |
| | **1,671,590** | **1,542,609** | | |

(*) The premium rates paid to monoline companies are excluded from the interest rates.

In December 2006, YKB finalised a diversified payment rights securitization transaction of US$800 million and EUR300 million by securitising its foreign currency denominated present and future remittances created via payment orders. The deal securitizes YKB’s payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from YKB’s trade finance and other retail and corporate businesses and paid through foreign depository banks.

The offered notes under the securitization program are issued by Yapı Kredi Diversified Payment Rights Finance Company “SPC”, an exempted limited liability company incorporated under the laws of the Cayman Islands. YKB acts as the originator of the diversified payment rights “DPR” and as the servicer. There were 4 tranches, which were insured by the monoline companies namely, Assured Guaranty Corporation, MBIA Insurance Corporation, Radian Asset Assurance Inc, and Ambac Assurance Corporation. The offered notes were offered for sale outside the United States in reliance upon Regulation S under the Securities Act. The Series 2006-D Notes are listed on the Luxembourg Stock Exchange. On the issuance date for the offered notes as of 14 December 2006, the SPC also entered into a private placement of US$310,000,000 of Series 2006-E Floating Rate Notes due 2011, which is a Senior Series and thus rank pari passu with the offered notes.

YKB has repaid US$310 million of the credit as of 1 March 2007 and refinanced it with a US$400 million of DPR transaction. The additional issuance was composed of two tranches one for €115million and one for US$250 million, insured by Financial Guaranty Insurance Company (FGIC) and XL Capital Assurance Incorporation respectively.

## NOTE 21 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

| | **30 June 2008** | **31 December 2007** |
|---|---|---|
| Financial liabilities designated at fair value | 53,926 | 51,273 |

Certain fixed rate borrowed funds have been matched with cross currency swaps as part of a documented currency risk management strategy. An accounting mismatch would arise if the borrowed funds were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt is recorded in the income statement. The contractual undiscounted amount that will be required to be paid at maturity of the above debt is YTL67,823 thousand (31 December 2007: YTL54,753 thousand). There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value as of 30 June 2008 (31 December 2007: None).

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 22 - TAXATION

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| Current tax expense | (128,470) | (163,058) |
| Deferred tax (expense) / income | (75,488) | 42,872 |
| | **(203,958)** | **(120,186)** |

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

*(i) Corporate Tax Rate and Filing*

Corporate Tax Law numbered 5520 became effective as of 1 January 2006 with the Official Gazette numbered 26205 published on 21 June 2006. By the issue of this law, Corporate Tax Law numbered 5422 was abolished.

Under the Corporate Tax Law numbered 5520, the applicable corporate tax rate is 20% for 2008 (31 December 2007:20%). Corporation tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single installment until the end of the month in which the tax return is to be filed.

*(ii) Controlled Foreign Corporations ("CFC")*

Corporations established abroad and controlled directly or indirectly by tax resident companies and real persons by means of separate or joint participation in the capital or dividends or voting rights at the rate of a minimum 50% are considered as CFC provided that the below conditions are fulfilled:

a) 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income like interest, dividend, rent, license fee, or marketable securities sales income;
b) The CFC must be subject to an effective income tax rate lower than 10% for its commercial profit in its home country; and,
c) Gross revenue of the CFC must exceed the equivalent of YTL100 thousand in a foreign currency in the related period.

CFC's profit is included in the corporate income tax base of the controlling resident corporation, irrespective of whether it is distributed or not, at the rate of the shares controlled, in the fiscal period covering the month of closing of the fiscal period of the CFC. The CFC's profit that has already been taxed in Turkey will not be subject to additional tax in Turkey in the event of dividend distribution; whereas the portion of the profit distributed that has not been previously taxed in Turkey will be subject to taxation. Taxes that CFC pays over its profit in the related foreign country will be offset from the tax calculated for the same revenue in Turkey.

## NOTE 22 - TAXATION (Continued)

*(iii) Thin Capital*

If the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times the shareholders’ equity of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered as thin capital. The interest paid or accrued and similar payments on thin capital are re-classified at the end of the relevant fiscal year as distributed dividend from the perspective of the borrower and as dividend received from the perspective of the lender, and as repatriated profit for non-resident taxpayers. In order to prevent double taxation, previously applied taxation in the hands of the lender that received interest or derived exchange gains will be amended.

For company that uses thin capital, there will be an additional tax assessment with penalty for the interest and similar payments for withholding tax over dividend distribution. Accordingly, under the new thin capitalisation regulation, the ratio of the loans received from related parties to shareholders’ equity will be considered as three to one. Except for the loans received from credit institutions that provide loans only to related companies, half of the loans received from related banks and similar institutions are to be taken into account during thin capitalisation calculations. In other words, the loans received just from these institutions will not be considered as thin capital until the amount of the borrowing exceeds six times the shareholders’ equity. Please note that, banks operating in Turkey are exempt from Thin Capitalisation regulation in terms of borrowing.

*(iv) Transfer Pricing*

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm’s length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes. The expression “purchase or sale of goods or services” is used in a broad sense and includes all economic, commercial or financial transactions and employment relations between related parties.

*(v) Anti-tax Heaven*

All sorts of payments made to corporations (including branches of resident corporations) that are established or are operational in countries which are regarded by the Council of Ministers to undermine fair tax competition due to tax and other practices, will be subject to taxation in Turkey irrespective of the fact that the payments in question are subject to tax or not; or, whether the corporation receiving the payment is a taxpayer or not. In this case, withholding tax at the rate of 30% is envisaged to be levied over these payments. Until now, Council of Ministers has not yet defined these jurisdictions and WHT rate as 30%.

*(vi) Dividend Taxation*

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15% Provisions of the bilateral tax treaties are reserved). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

## NOTE 22 - TAXATION (Continued)

*(vii) Advance Corporate Tax*

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their quarterly determined corporate income. Advance tax return is filed by the 14th of the second month following the each quarterly period and is payable on the 17th of the same month. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

*(viii)Inflation Accounting*

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. In accordance with the aforementioned law provisions, in order to apply inflation adjustment, cumulative inflation rate (SIS-WPI) over last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not fulfilled in the year 2007.

*(ix) Tax Assessments*

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings.

*(x) Loss Carry Forward*

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

There are numerous exemptions in the Corporate Tax Law concerning the corporations. Those related to the Company are as follows:

*Exemption for participation in subsidiaries*

Dividend income from participation in shares of capital of another full fledged (resident) taxpayer corporation (except for dividends from investment funds participation certificates and investment partnerships company shares) are exempt from corporate tax.

*Exemption for sale of preferential right certificates and share premiums*

Profits from sale of preferential right certificates and share premiums generated from sale of shares at a price exceeding face values of those shares during incorporations or capital increases of joint stock companies are exempt from corporate tax.

## NOTE 22 - TAXATION (Continued)

*Exemption for income from foreign construction, maintenance, assembly and technical services*

Income generated from construction, maintenance, assembly and technical services realised in foreign countries and recorded to results of operations are exempted from corporate taxation.

*Exemption for participation into foreign subsidiaries*

If the below conditions are fulfilled, participation income obtained from abroad and those transferred to Turkey by the date when corporate tax declaration regarding the taxation period in which they are obtained is filed shall not be subject to corporate tax in Turkey. Conditions are as follows:

In order to benefit from this amendment, foreign subsidiaries are required to fulfil the following conditions:

- The subsidiary should be incorporated as a joint stock or limited company,
- The legal and business center of the subsidiary should not be located in Turkey
- At least 10% of the paid-in capital of foreign subsidiary should be held.
- As of the acquisition date of participation income the participation share should have been kept for at least one fiscal year.
- Participation income is expected to carry a minimum 15% tax burden in the residence country. In the event of the core business of the foreign subsidiary is insurance, finance procurement or marketable security investment, in order to benefit from the foreign participation exemption the foreign subsidiaries should be subject to taxation (taxes such as income or corporate tax) in the company of which the subsidiary is operating, at a rate that should not be less then the corporate income tax rate in Turkey.
- Participation income has to be transferred to Turkey before the submission deadline of the corporate tax declaration

In order to apply the participation exemption the conditions have all to be fulfilled.

*Exemption for income generated from foreign offices and permanent representatives*

Gains obtained by corporations through their places of business abroad or permanent offices abroad and bearing a tax liability similar to that of corporate tax at least at the rate of 15% in accordance with the tax law of the country where that place of business and permanent office is located, (equal to at least the corporate tax burden in Turkey regarding insurance and finance and financial leasing companies and for the companies whose main activity is investment in securities), and which is transferred to Turkey until the submission date of the corporate tax return of the related period, will be exempt from corporate tax.

*Capital gains exemption for the capital gains obtained from the sale of foreign subsidiaries*

Capital gains obtained from the sale of foreign company shares by the Turkish resident companies are exempt from corporate tax provided that the below conditions are satisfied: If as of the date of the income is generated at least 75% of the asset value (except cash) of the Turkish company is comprised of at least 10% shareholdings in one or more foreign companies. If these shares of the foreign companies are being held at least for a continuous period of two years.

## NOTE 22 - TAXATION (Continued)

*Exemption for sale of participation shares and property*

75% of the capital gains of corporations’ from sale of participation shares and property which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the balance sheet for 5 years.

In the event that these profits accounted under special reserves are withdrawn from the entity in any means, transferred to abroad by non-resident taxpayer corporations or the entity liquidates (except by take over, merger and de-merger) within five years, those profits are considered as profits regarding that year and are subject to corporate tax.

This exemption is not applicable for the companies whose main activity is real estate trading and/or leasing or securities trading.

*Exemption for investment allowance*

Under the investment allowance regime applicable as of 31 December 2005, capital expenditures, with some exceptions, over YTL10 thousand are eligible for investment incentive allowance of 40% is exempted from corporate income tax and this allowance is not subject to withholding tax without the requirement of an investment incentive certificate. Investment allowances calculated are deferred to the following years in cases where corporate income is insufficient. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 in accordance with provisions of Income Tax Law Temporary Article 61 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

As of 1 January 2006, the investment allowance regime has been abolished with Corporate Income Tax Law No.5479.

Under the temporary article 69 of Income Tax Law, a transition period of three years has been provided for income and corporate taxpayers which have investment incentive allowance rights as of 31 December 2005, which have not yet utilised and which have been deferred to the following years where corporate income may be insufficient and where investment allowance will be earned from the investment expenditures made for the ongoing projects as of 31 December 2005. According to this, investment allowances which is calculated in accordance with temporary article 61 and article no: 19 of the Income Tax Law can be utilised for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on 31 December 2005 Therefore the applicable corporate tax rate is 30% in case of benefiting from investment allowances. Tax payers have to inform the relevant tax office until the submission date of the first quarter advance tax return that they opt to utilize investment allowance in accordance with the Circular numbered KVK-3 /2006-3 /Investment Allowance 2 issued by Ministry of Finance. The choice of benefiting from investment allowance can not be changed in the annual tax return term.

Apart from the above mentioned exemptions considered in the determination of the corporate income tax base, allowances stated in Corporate Income Tax Law Article 8, 9 and 10, and Income Tax Law Article 40 are also taken into consideration.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 22 - TAXATION (Continued)

Reconciliation between the theoretical tax amount that would arise using the basic tax rate of the Parent and the actual taxation charge for the period is stated below:

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| **Profit before income taxes** | **1,012,392** | **651,591** |
| Theoretical income tax at the applicable tax rate of 20% | 202,478 | 130,318 |
| Effect of different tax rates in other countries | 1,215 | 1,437 |
| Non-taxable consolidation adjustments | 32,266 | 32,143 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Income exempt from taxation | (53,625) | (46,767) |
| - Non-deductible expenses for tax purposes | 36,571 | 7,392 |
| - Utilisation of investment incentive | (13,573) | (1,286) |
| - Utilised tax loss carry forward | (1,374) | (3,051) |
| **Income tax expense** | **203,958** | **120,186** |

### Deferred income taxes

For all domestic subsidiaries and the Parent, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2008 under the liability method using a principal tax rate of 20% at 30 June 2008 (31 December 2007: 20%).

For foreign subsidiaries deferred income taxes calculated on all temporary differences under the liability method using the principal tax rates at 30 June 2008 and 31 December 2007 which are as follows:

| Country of incorporation | Tax rate (%) 30 June 2008 | 31 December 2007 |
|---|---|---|
| Russia | 24.00 | 24.00 |
| Netherlands | 25.50 | 25.50 |
| Azerbaijan | 22.00 | 22.00 |

The deferred income tax asset and liability represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 22 - TAXATION (Continued)

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

| | Cumulative Temporary Differences | | Deferred Tax Asset/Liability | |
|---|---|---|---|---|
| | 30 June 2008 | 31 December 2007 | 30 June 2008 | 31 December 2007 |
| Impairment on assets | 807,159 | 856,770 | 94,844 | 104,922 |
| Allowance for loan impairment | 609,496 | 736,714 | 107,094 | 134,315 |
| Pension benefits transferrable to SSI (Note 24) | 735,719 | 706,000 | 147,144 | 141,200 |
| Reserve for employee termination benefits (Note 24) | 92,870 | 96,626 | 18,564 | 19,324 |
| Revaluation of derivative instruments at fair value | 176,985 | 235,481 | 27,683 | 45,536 |
| Valuation differences on investment securities | 39,721 | 27,336 | 7,945 | 5,468 |
| Other | 266,610 | 212,343 | 51,941 | 41,498 |
| **Deferred income tax assets** | **2,728,560** | **2,871,270** | **455,215** | **492,263** |
| Difference between carrying value and tax base of premises and equipment | 979,475 | 1,000,363 | 104,087 | 106,628 |
| Valuation differences on investment securities | 123,459 | 34,863 | 24,692 | 6,972 |
| Revaluation of derivative instruments at fair value | 75,579 | 55,373 | 19,173 | 11,195 |
| Assets capitalised under finance leases | 8,405 | 8,523 | 1,681 | 1,704 |
| Other | 101,127 | 77,913 | 14,700 | 5,964 |
| **Deferred income tax liabilities** | **1,288,045** | **1,177,035** | **164,333** | **132,463** |
| **Deferred income tax assets, net** | **1,440,515** | **1,694,235** | **290,882** | **359,800** |

The movements of deferred income taxes at 30 June were as follows:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January as previously reported** | **359,800** | **306,102** |
| - effect of restatement (Note 27) | - | (573) |
| **Balance at 1 January as restated** | **359,800** | **305,529** |
| Charge for the period, net | (75,488) | 42,872 |
| Tax assets charged to equity | (694) | (1,310) |
| Net investment hedge | 7,272 | (1,702) |
| Translation difference | (8) | 151 |
| **Balance at 30 June** | **290,882** | **345,540** |

The amount of deductible temporary differences for which no deferred tax assets is not recognised in the balance sheet is YTL87,001 thousand (31 December 2007: YTL82,714 thousand).

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 23 - OTHER PROVISIONS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Tax and other legal provisions | 139,982 | 92,185 |
| Provision for losses on credit related commitments | 128,090 | 131,872 |
| Credit card bonus provision | 40,462 | 36,014 |
| Provision on export commitment estimated liability | 39,627 | 39,945 |
| Other | 2,123 | 1,133 |
| | **350,284** | **301,149** |

### Tax and other legal provisions

At 30 June 2008, the Group is involved in number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of YTL14,642 thousand (31 December 2007: YTL12,865 thousand) as the best estimate of the amount to settle these potential obligations.

The Group recorded total provision of YTL125,340 thousand (31 December 2007: YTL79,320 thousand) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the period ended 30 June 2008.

### Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfil their export commitments and has recognised provision of YTL39,627 thousand (31 December 2007: YTL39,945 thousand).

### Provision for credit related commitments

Movement in provision for losses on credit related commitments is as follows:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January** | **131,872** | **160,576** |
| Impairment losses on credit related commitments (Note 34) | 5,896 | (9,435) |
| Provision used | (9,678) | - |
| Translation difference | - | (1) |
| **Balance at 30 June** | **128,090** | **151,140** |

Movement in other provisions is as follows:

| | Tax and other legal provision | Credit card bonus provision | Export commitment provision | Other | 2008 Total | 2007 Total |
|---|---|---|---|---|---|---|
| **At 1 January as previously reported** | **92,185** | **36,014** | **39,945** | **1,133** | **169,277** | **217,096** |
| - effect of restatement (Note 27) | - | - | - | - | - | 1,342 |
| **At 1 January as restated** | **92,185** | **36,014** | **39,945** | **1,133** | **169,277** | **218,438** |
| Provision (released)/charged | 48,283 | 71,009 | - | 990 | 120,282 | 94,796 |
| Provision used | (485) | (66,561) | (318) | - | (67,364) | (148,809) |
| Translation difference | (1) | - | - | - | (1) | (59) |
| **Balance at 30 June** | **139,982** | **40,462** | **39,627** | **2,123** | **222,194** | **164,366** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Balance sheet obligations for: | | |
| - Post employment benefits (pension and medical) transferrable to SSI | 735,719 | 706,000 |
| - Reserve for employment termination benefits | 92,870 | 96,626 |
| | **828,589** | **802,626** |

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| Income statement charge for: | | |
| - Post employment benefits (pension and medical) transferrable to SSI | (29,719) | (40,199) |
| - Reserve for employment termination benefits | (2,978) | (1,257) |
| | **(32,697)** | **(41,456)** |

Income statement charge for retirement benefit obligations has been recognized as a separate line item in the income statement for the periods 30 June 2008 and 2007.

The cash payments to the Fund by the Group which represent the employers contribution during the period amounting to YTL48,680 thousand (31 December 2007: YTL69,706 thousand) has been included staff cost expenses under operating expenses (Note 33). Total expenses on post employment benefits are amounting to YTL78,399 thousand (31 December 2007: YTL176,466 thousand).

### (i) Post employment benefits (Pension and medical) transferrable to SSI

YKB personnel are members of the Fund which was established in accordance with the 20th temporary article of Social Security Law numbered 506 ("the Social Security Law"). The Banking Law which was enacted on 1 November 2005, included a provision requiring the transfer of pension funds of the banks, including the Fund, to the SSI within three years following the publication of the Banking Law. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed by taking into account the procedures and other parameters determined by the commission established by Ministry of Labour and Social Security. Accordingly, the Group calculated the pension benefits transferrable to SSI in accordance with the Decree published by the Council of Ministers in the Official Gazette dated 15 December 2006 No.26377 ("the Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However, the said Article was vetoed by the President and on 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind the Article.

As of 31 December 2006, the Group obtained an actuarial report from an actuary who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial balance sheet of the Fund has been prepared in accordance with a technical interest rate of 10.24% and the CSO 1980 mortality table, and reflects a technical deficit of YTL599,240 thousand.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article 23 of the Banking Law, which requires the transfer of the Pension Fund to the SSI, until the decision regarding the cancellation thereof is published in the Official Gazette. The New Law was published in the Official Gazette dated 8 May 2008, numbered 26870 and came into force. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSI within 3 years following enactment.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

The Main Opposition Party has applied to the Constitutional Court at 19 June 2008 for cancellation of some articles and requested them to be ineffective until the case of abrogation is finalised. As of the date of the publication of the financial statements, there is no decision of the Constitutional Court announced regarding the court case of abrogation.

The Group obtained an actuarial report from a registered actuary regarding this fund in accordance with the New Law related to principles and procedures on determining the application of transfer transactions. The actuarial balance sheet of the Fund has been prepared in accordance with a technical interest rate of 9.80% and CSO 1980 mortality table and reflects a technical deficit of YTL735,719 thousand at 30 June 2008. (31 December 2007: YTL706,000 thousand)

The Group's obligation in respect of the post employment pension and medical benefits transferrable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the New Law and other related laws and regulations. The pension disclosures set out below therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The amounts recognised in the balance sheet are determined as follows:

| | **30 June 2008** | **31 December 2007** |
|---|---|---|
| Present value of funded obligations | 991,606 | 935,366 |
| *- Pension benefits transferrable to SSI* | *991,815* | *904,367* |
| *- Post-employment medical benefits transferrable to SSI* | *(209)* | *30,999* |
| Fair value of plan assets | (255,887) | (229,366) |
| **Liability in the balance sheet** | **735,719** | **706,000** |

The movement in the defined benefit obligation over the period is as follows:

| | **Defined benefit pension plans** | | **Post-employment medical benefits** | |
|---|---|---|---|---|
| | **30 June 2008** | **31 December 2007** | **30 June 2008** | **31 December 2007** |
| **Balance at opening** | **904,367** | **703,400** | **30,999** | **66,382** |
| Current service cost | 30,468 | 67,405 | 18,212 | 2,301 |
| Interest cost | 44,314 | 68,933 | 3,038 | 6,505 |
| Contributions by plan participants | 25,852 | 57,192 | 13,008 | 1,917 |
| Actuarial losses/(gains) | 37,005 | 107,891 | (51,592) | (14,281) |
| Benefits paid | (50,191) | (100,454) | (13,874) | (31,825) |
| **Balance at closing** | **991,815** | **904,367** | **(209)** | **30,999** |

The amounts recognised in the income statement are as follows:

| | **Defined benefit pension plans** | | **Post-employment medical benefits** | |
|---|---|---|---|---|
| | **30 June 2008** | **31 December 2007** | **30 June 2008** | **31 December 2007** |
| Current service cost | 30,468 | 67,405 | 18,212 | 2,301 |
| Interest cost | 44,314 | 68,933 | 3,038 | 6,505 |
| Expected Return on plan assets | (20,392) | (34,681) | - | - |
| Net actuarial (gains) / losses recognised during the period | 55,217 | 110,192 | (52,458) | (44,189) |
| | **109,607** | **211,849** | **(31,208)** | **(35,383)** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

| | 30 June 2008 (%) | 31 December 2007 (%) |
|---|---|---|
| Discount rate | | |
| *- Pension benefits transferrable to SSI* | *9.80* | *9.80* |
| *- Post-employment medical benefits transferrable to SSI* | *9.80* | *9.80* |

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

| | Increase/ Decrease |
|---|---|
| Effect on the aggregate of the current service cost and interest cost | 30 |
| Effect on the defined benefit obligation | 4,700 |

*Mortality rate*

The average life expectancy in years of a pensioner retiring at age 60 for men, 58 for women on the balance sheet date is as follows:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Male | 18.0 | 18.0 |
| Female | 23.4 | 23.4 |

The movement in the fair value of plan assets of the period is as follows:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| **Balance at opening** | **229,366** | **170,542** |
| Actual return on plan assets | 20,392 | 34,681 |
| Employer contributions | 30,468 | 67,405 |
| Employee contributions | 25,852 | 57,192 |
| Benefits paid | (50,191) | (100,454) |
| **Balance at closing** | **255,887** | **229,366** |

Plan assets are comprised as follows:

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| Government bonds and treasury bills | 125,733 | 49% | 112,742 | 50% |
| Premises and equipment | 94,577 | 37% | 94,596 | 41% |
| Bank placements | 11,796 | 5% | 14,216 | 6% |
| Short term receivables | 2,239 | 1% | 2,080 | 1% |
| Other | 21,542 | 8% | 5,732 | 2% |
| | **255,887** | **100%** | **229,366** | **100%** |

The fair value of the premises occupied by the Group is YTL36,114 thousand (31 December 2007: YTL36,114 thousand).

Expected contributions to post-employment benefit plans for the year ending 31 December 2008 are YTL113,000 thousand.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

### (ii) Reserve for employment termination benefits

The movement in the reserve for employee benefits is as follows:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January as previously reported** | **96,626** | **105,487** |
| - effect of restatement (Note 27) | - | 1,094 |
| **Balance at 1 January as restated** | **96,626** | **106,581** |
| Interest costs | 4,942 | 2,590 |
| Actuarial gains and losses | 3,277 | 3,203 |
| Annual charge | (5,241) | (4,536) |
| Paid during the period | (6,644) | (13,913) |
| Translation difference | (90) | (221) |
| **Balance at 30 June** | **92,870** | **93,704** |

The total of interest cost, actuarial gains and losses and annual charge for the period amounting to YTL2,978 thousand (30 June 2007: YTL1,257 thousand) were included in provision for retirement benefit obligations.

Under the Turkish Labour Law, the Parent and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of YTL2,173.19 (1 January 2008: YTL2,087.92) for each year of service.

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Discount rate (%) | 5.71 | 5.71 |
| The probability of retirement (%) | 95.53 | 96.20 |

Additionally, the principal actuarial assumption is that the maximum liability of YTL2,087.92 for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of 2,173.19 (1 January 2008: YTL2,087.92) which is effective from 1 July 2008, has been taken into consideration in calculating the reserve for employee benefits of the parent and its domestic subsidiaries.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 25 - INSURANCE BUSINESS

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Mathematical reserve | 281,565 | 272,742 |
| Profit share reserve | 198,070 | 215,810 |
| Unearned premium reserve | 236,970 | 223,430 |
| Outstanding claim reserve | 62,880 | 62,150 |
| Insurance IBNR reserve | 12,595 | 12,336 |
| **Total** | **792,080** | **786,468** |

### Insurance Liabilities and Reinsurance Assets

| **Gross insurance liabilities** | **30 June 2008** | **31 December 2007** |
|---|---|---|
| Life mathematical reserves | 479,635 | 488,552 |
| Reserve for unearned premiums | 308,128 | 277,926 |
| Claims provision | 124,631 | 121,569 |
| **Total** | **912,394** | **888,047** |
| **Recoverable from reinsurers** | | |
| Reserve for unearned premiums | (71,158) | (54,496) |
| Claims provision | (49,156) | (47,083) |
| **Total** | **(120,314)** | **(101,579)** |
| **Net insurance liabilities** | | |
| Life mathematical reserves | 479,635 | 488,552 |
| Reserve for unearned premiums | 236,970 | 223,430 |
| Claims provision | 75,475 | 74,486 |
| **Total** | **792,080** | **786,468** |

### Movements in insurance liabilities and reinsurance assets

*(a) Claims and loss adjustment expenses:*

| | | 30 June 2008 | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| At the beginning of the period | 121,569 | (47,083) | 74,486 |
| Cash paid for claims settled in the period | 14,248 | 18,778 | 33,026 |
| Increase/(decrease) in liabilities | | | |
| - Current period | (18,313) | (17,294) | (35,607) |
| - Prior years | 7,127 | (3,557) | 3,570 |
| **Total at the end of the period** | **124,631** | **(49,156)** | **75,475** |
| Notified claims | | | 62,880 |
| Insurance IBNR | | | 12,595 |
| **Total at the end of the period** | | | **75,475** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 25 - INSURANCE BUSINESS (Continued)

| | | 30 June 2007 | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| At the beginning of the period | 104,270 | (42,264) | 62,006 |
| Cash paid for claims settled in the period | 14,281 | 19,480 | 33,761 |
| Increase/(decrease) in liabilities | | | |
| - Current period | (15,554) | (17,809) | (33,363) |
| - Prior years | (1,106) | (4,002) | (5,108) |
| **Total at the end of the period** | **101,891** | **(44,595)** | **57,296** |
| Notified claims | | | 47,506 |
| Insurance IBNR | | | 9,790 |
| **Total at the end of the period** | | | **57,296** |

*(b) Provision for unearned premiums:*

| | | 30 June 2008 | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| Reserve for unearned premiums | | | |
| - beginning of the period | 277,926 | (54,496) | 223,430 |
| Net change in | | | |
| reserve for unearned premiums | 30,202 | (16,662) | 13,540 |
| **Total at the end of the period** | **308,128** | **(71,158)** | **236,970** |

| | | 30 June 2007 | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| Reserve for unearned premiums | | | |
| - beginning of the period | 242,457 | (46,417) | 196,040 |
| Net change in | | | |
| reserve for unearned premiums | 9,389 | (3,412) | 5,977 |
| **Total at the end of the period** | **251,846** | **(49,829)** | **202,017** |

Commission expense amount deducted from Gross UPR is YTL148 thousand (30 June 2007: YTL457 thousand).

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 25 - INSURANCE BUSINESS (Continued)

*c) Sensitivity analysis:*

If the loss ratio had increased/decreased by 1%, the expected technical profit for the period would have been YTL2,506 thousand higher/lower.

**Claim development table as of 30 June 2008:**

| **Accident year** | **2000-2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claim costs:** | | | | | | | | |
| At the end of accident year | - | - | 180,630 | 224,830 | 260,339 | 292,483 | 323,388 | 1,281,670 |
| One year later | - | - | 3,074 | 842 | 2,747 | 4,537 | - | 11,200 |
| Two years later | - | - | (1,239) | 618 | 2,074 | - | - | 1,453 |
| Three years later | - | - | 726 | 451 | - | - | - | 1,177 |
| Four years later | - | - | 234 | - | - | - | - | 234 |
| Five years later | - | - | - | - | - | - | - | - |
| Current estimate of cumulative claims | - | - | 183,425 | 226,741 | 265,160 | 297,020 | 323,388 | 1,295,734 |
| Cumulative payments to date | - | - | (180,947) | (223,333) | (259,714) | (291,994) | (266,756) | (1,222,744) |
| Total | | | | | | | | 72,990 |
| Estimated Insurance IBNR | | | | | | | | 2,485 |
| **Total liability per claim development table** | | | | | | | | **75,475** |
| Other assumed claims | | | | | | | | - |
| **Total liability included in the balance sheet** | | | | | | | | **75,475** |

**Assumptions used for mathematical reserve adequacy calculation:**

| | **30 June 2008** (%) | **31 December 2007** (%) |
|---|---|---|
| Average investment return of the portfolio between 2007-2035 | 11 | 11 |
| 2007-2010 | 15 | 15 |
| 2011-2015 | 12 | 12 |
| 2016-2020 | 10 | 10 |
| 2021-2025 | 9 | 9 |
| 2026-2030 | 8 | 8 |
| 2031-2035 | 8 | 8 |
| Average inflation rate | 5 | 5 |
| Average surrender rate | 10 | 10 |
| Average maturity rate | - | - |
| **Resulting cumulative liability adequacy test** | **-** | **-** |

No provision is required to be accounted for, due to this financial risk arising from life insurance policies with a guaranteed annual return of 9%.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 25 - INSURANCE BUSINESS (Continued)

*(d) Long-term insurance contracts with fixed terms and guaranteed terms:*

Movement in life mathematical reserves during the period is as follows:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January** | **488,552** | **532,367** |
| Premium of saving policies | 31,233 | 36,468 |
| Investment income | 17,459 | 4,948 |
| Closing balance of non-saving life policies | 29,318 | 14,962 |
| Surrender and policy maturities | (50,295) | (62,392) |
| Loading expenses | (2,550) | (2,954) |
| Commission expenses | (2,792) | (1,465) |
| Risk premium | (3,177) | (3,555) |
| Beginning balance of non-saving life policies | (21,768) | (13,188) |
| Other movements | (6,345) | (3,161) |
| **Balance at 30 June** | **479,635** | **502,030** |

At 30 June 2008 and 31 December 2007, life mathematical reserve balances included the following foreign currency amounts:

| | Amount in original currency | | YTL Equivalent | |
|---|---|---|---|---|
| | **30 June 2008** | **31 December 2007** | **30 June 2008** | **31 December 2007** |
| US$ | 178,115 | 193,172 | 217,959 | 224,987 |
| EUR | 32,218 | 35,025 | 62,087 | 59,900 |
| | | | **280,046** | **284,887** |

*e) Financial service contracts for pension fund participants:*

Financial Liability (due to 'Entrance Fees'): Regarding pension contracts, an entrance fee is paid to the customer as a loyalty bonus if the contract is in-force more than 10 years. The provision was set for the financial liability due to this loyalty bonus using an 84-month (approximately 7 years) useful life, which is the best estimate supported via actuarial calculations including persistency rate indicators realized until now and expected for the future.

DAC: All commissions paid over pension contracts and rewards directly related to the sales were deferred using an 18-month useful life. The DAC amount has been limited to the exit fee, which is postponed portion of the entrance fee collected from customers as a beginning payment for the pension system, and if a customer wants to leave the system, this exit fee should be paid directly to the Company. DAC amount has been limited to the exit fee since only the exit fee is acceptable as a secured asset for our pension contracts.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 25 - INSURANCE BUSINESS (Continued)

| | 2008 | 2007 |
|---|---|---|
| Earned premiums, net of reinsurance | | |
| Gross premiums written | 377,066 | 353,967 |
| Outward reinsurance premiums | (93,480) | (88,893) |
| Change in reserve for unearned premiums, net of reinsurance | (29,010) | (6,604) |
| Claims incurred, net of reinsurance | | |
| Claims paid, net | (225,766) | (212,525) |
| Gross amount | (262,274) | (261,196) |
| Reinsurers' share | 36,508 | 48,671 |
| Change in claims provision, net of reinsurance | (7,038) | 4,711 |
| Commissions, net | (2,363) | (1,388) |
| Other income/(expense), net | 14,767 | 7,121 |
| **Income from non-life insurance business** | **34,176** | **56,389** |

## NOTE 26 - OTHER LIABILITIES

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Credit card payables | 2,065,977 | 1,896,244 |
| Blocked accounts | 894,610 | 179,108 |
| Clearing accounts | 808,228 | 326,528 |
| Import deposit and transfer orders | 272,728 | 231,397 |
| Miscellaneous payables to customers | 127,379 | 159,728 |
| Taxes other than income and withholdings | 115,934 | 145,110 |
| Premium and bonuses payable to personnel | 79,309 | 144,354 |
| Provision for unused annual vacation | 53,885 | 42,958 |
| Unearned income | 26,610 | 24,820 |
| Advances taken | 15,020 | 16,257 |
| Saving Deposits Insurance Fund payable | 7,139 | 6,212 |
| Other | 733,713 | 592,955 |
| **Total** | **5,200,532** | **3,765,671** |
| Current | 5,072,719 | 3,605,440 |
| Non-current | 127,813 | 160,231 |

## NOTE 27 - ACQUISITIONS AND MERGERS

***(i) Mergers, transfers and acquisitions in the period 2008***

Nominal share capital amount of YTL34,897,132.53 (35.28% of the capital), owned by KFS in Yapı Kredi Menkul have been purchased by YKB in return for USD158,754,689.63 and the cost of the share purchase has been paid to KFS as YTL188,617 thousand converted with the CBRT exchange rate at 15 February 2008.

Besides, the nominal share capital amount of EUR32.672.880,00 (67.24% of the capital), owned by KFS in Yapı Kredi NV has been purchased by YKB in return for EUR97.502.661,71 and the cost of the share purchase has been paid to KFS as YTL165.062 thousand converted with the CBRT EUR exchange buying rate at 11 January 2008.

Since the transactions mentioned above are considered as transactions with minorities the difference between the purchase cost and the net assets acquired is disclosed under "Retained Earnings" line of consolidated statement of changes in shareholders' equity.

***(ii) Legal mergers of other financial subsidiaries in the year 2007***

Extraordinary General Assembly meetings regarding the transfer of Koç Yatırım, with all its rights, receivables, liabilities and obligations to the Yapı Kredi Menkul and the consequential dissolution without liquidation were held on 29 December 2006 and the merger was approved on 12 January 2007. As a result of the merger, the Bank's share in Yapı Kredi Menkul. has decreased from 99,99% to 64,70%. However, share of Bank's risk Group is 100%.

Regarding the restructuring process of the foreign investments of YKB and KFS, the merger transaction of Yapı Kredi NV, established in Holland and wholly-owned by YKB (through Yapı Kredi Holding B.V. which is a 100% owned investment in associate), with the Koçbank Nederland N.V. 100% investment in associate of KFS, has been completed as of 2 July 2007. After the merger, regarding the new structure of the partnership, YKB's shareholding ratio is realised as 32.76% and the shareholding ratio of KFS is realised as 67.24%. Due to this merger, the Bank has restated its financial statements as of 31 December 2007.

Besides, as a part of the structural reorganization, transfer of 99.80% the shares of Yapı Kredi Azerbaijan owned by KFS with a nominal value of AZN 6,336,200 has been completed as of 31 October 2007.

During and after transactions stated above, as there has been no change in the owners of final control rights of Yapı Kredi NV, Koçbank Nederland N.V. and Yapı Kredi Bank Azerbaijan, these transactions have been identified as transactions under common control and recorded in line with the accounting policy defined in Note 2.S.

***iii) Acquisition of YKB and legal merger with Koçbank***

On 28 September 2005, the final version of the Share Purchase Agreement was signed between Çukurova Holding, various Çukurova Companies, Mehmet Emin Karamehmet (collectively "Çukurova Group") and KFS, Koçbank N.V. and Koçbank regarding the sale of 57.42% of the shares of YKB. According to the agreement on 28 September 2005, 44.52% of the shares of YKB owned by Çukurova Group and 12.90% of the shares owned by Saving Deposit Insurance Fund were transferred to Koçbank. The value for 57.4% of the shares of YKB was realised as EUR1,182,369 thousand.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 27 - ACQUISITIONS AND MERGERS (Continued)

Details of net assets acquired and goodwill are as follows:

| | |
|---|---|
| **Purchase consideration:** | |
| - Cash paid | 1,919,992 |
| - Direct costs relating to the acquisition | 41,940 |
| **Total purchase consideration** | **1,961,932** |
| - preliminary fair value of net identifiable assets acquired | 974,316 |
| - adjustments on preliminary fair values in initial accounting period | (35,912) |
| **Fair value of net identifiable assets acquired** | **938,404** |
| **Goodwill on acquisition (Note 13)** | **1,023,528** |

In April 2006, Koçbank increased its interest in YKB with the acquisition of a further 9.09% of the issued share capital of YKB, increasing its total interest to 67.31%. The Group recognised the difference between the acquisition cost and net assets acquired amount directly under equity.

| | |
|---|---|
| Total acquisition cost | 607,331 |
| Net assets acquired | (166,489) |
| **Difference** | **440,842** |

In 2006 shareholders of both YKB and Koçbank approved the merger of two banks and the transfer of all Koçbank's rights, receivables, liabilities and obligations to YKB in accordance with article 19 of the Banking Act No.5411 and other relevant legislation was completed on 2 October 2006. Due to the merger and the consequential dissolution of Koçbank without liquidation, the record of Koçbank was erased from the trade registry as of 2 October 2006. After the merger, the share of the KFS, which owned the 99.78% shares of the Koçbank, became 80.18% in the merged YKB. The new combined legal entity retained the name Yapı ve Kredi Bankası A.Ş..

The Group policy is to account business combinations under common control applying pooling of interest method using predecessor values and restating comparatives on "as if" basis (Note 2.R). In that respect, the Group considered merger between YKB and Koçbank, being a transaction under common control of KFS, as legal reorganization rather than acquisition to the Group and used predecessor values in preparation of the consolidated financial statements.

However, as a result of the merger minority shareholders who held 32.69% shareholding in YKB are holding 19.73% in the merged YKB, so this portion of minority interest, previously presented in the consolidated balance sheet of Koçbank is adjusted to as "additional paid in capital" in the consolidated balance sheet 31 December 2006.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 28 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 342,705,128.40 thousand (31 December 2007: 342,705,128.40 thousand) authorised shares with a nominal value of YTL0.01 each. The Company's authorised capital amounts to YTL3,427,051 thousand (31 December 2007: YTL3,427,051 thousand).

The issued and fully paid-in share capital and share premium are as follows:

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| **Shareholders** | **Participation rate (%)** | **YTL thousand** | **Participation rate (%)** | **YTL thousand** |
| Koç Finansal Hizmetler A.Ş. | 81.79 | 2,802,933 | 81.79 | 2,802,933 |
| Other | 18.21 | 624,118 | 18.21 | 624,118 |
| **Historical share capital** | **100.00** | **3,427,051** | **100.00** | **3,427,051** |
| Adjustment to share capital | | (60,471) | | (60,471) |
| Share premium | | 533,431 | | 533,431 |
| **Total share capital and share premium** | | **3,900,011** | | **3,900,011** |

Transfer of the 59.47% of the shares of Yapı Kredi Faktoring with a nominal value of YTL9,992,000, 73.10% of the shares of Yapı Kredi Leasing with a nominal value of YTL285,048,428 and 99.80% of the shares of Yapı Kredi Bank Azerbaijan with a nominal value of AZN6,336,200; all formerly owned by KFS have been completed as of 31 October 2007. As a part of this share exchange the Bank's capital was increased by YTL277,601,284 through increasing the shareholding of KFS. Besides, the difference between the nominal values of the shares issued by the Bank and the fair values of the shares transferred to the Bank amounting to YTL495,852 thousand, have been recorded in equity as "Share Premium".

## NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Statutory reserve | 44,114 | 17,184 |
| Translation reserves | 60,615 | 8,803 |
| Revaluation reserve - available-for-sale investments | 2,902 | 25,797 |
| Hedging reserves | (37,032) | (7,945) |
| **Total other reserves** | **70,599** | **43,839** |
| **Retained earnings** | **1,509,745** | **829,603** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES (Continued)

Movements in other reserves were as follows:

| | Statutory reserves | Revaluation reserves | Translation reserves | Hedging reserves | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2008** | **17,184** | **25,797** | **8,803** | **(7,945)** | **43,839** |
| Net change in available-for-sale Investments, net of tax | - | (18,516) | - | - | (18,516) |
| Gains on hedges of a net investment in a foreign operation | - | - | - | (29,087) | (29,087) |
| Currency translation differences | - | - | 50,227 | - | 50,227 |
| Transfer from reserves | 26,930 | - | - | - | 26,930 |
| Net income recognised directly in equity | - | (4,379) | - | - | (4,379) |
| Effect of disposal of subsidiary | - | - | 1,597 | - | 1,597 |
| Purchase from minority interests | - | - | (12) | - | (12) |
| **Balance at 30 June 2008** | **44,114** | **2,902** | **60,615** | **(37,032)** | **70,599** |

| | Statutory reserves | Revaluation reserves | Translation reserves | Hedging reserves | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2007** | **17,184** | **18,379** | **29,924** | **(19,194)** | **46,293** |
| Net change in available-for-sale Investments, net of tax | - | 491 | - | - | 491 |
| Gains on hedges of a net investment in a foreign operation | - | - | - | 6,806 | 6,806 |
| Currency translation differences | - | - | (23,268) | - | (23,268) |
| Effect of merged entities under common control (Note 2.R and 27) | - | 43 | - | - | 43 |
| Net income recognised directly in equity | - | 6,829 | - | - | 6,829 |
| **Balance at 30 June 2007** | **17,184** | **25,742** | **6,656** | **(12,388)** | **37,194** |

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

Starting from 2002, the lower of non-inflation adjusted historical profits or profits arising in the inflation adjusted statutory financial statements can be subjected to the profit appropriation and distribution.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 30 - NET INTEREST INCOME

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| **Interest income on:** | | |
| Loans and advances: | | |
| - to banks | 141,758 | 146,232 |
| - to customers | 2,379,033 | 1,916,708 |
| Reserve deposits | 15,662 | 13,712 |
| Investment securities | 793,933 | 915,820 |
| Financial leases | 148,181 | 117,181 |
| Other | 20,623 | 57,727 |
| **Total interest income** | **3,499,190** | **3,167,380** |
| **Interest expense on:** | | |
| Deposits from banks | 14,268 | 12,806 |
| Due to customers | 1,766,995 | 1,620,835 |
| Repurchase agreement | 59,813 | 173,168 |
| Other borrowed funds | 271,529 | 195,649 |
| Securities issued | 40,306 | 34,141 |
| Financial derivatives | 60,478 | 26,436 |
| Other | 420 | 37,957 |
| **Total interest expense** | **2,213,809** | **2,100,992** |
| **Net interest income** | **1,285,381** | **1,066,388** |

## NOTE 31 - NET FEE AND COMMISSION INCOME

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| **Fee and commission income on:** | | |
| Credit/debit cards | 361,439 | 306,258 |
| Assets under management | 116,112 | 90,356 |
| Banking services | 231,466 | 126,647 |
| Loans | | |
| - Credit related commitments | 72,897 | 66,404 |
| - Loans and advances | 39,733 | 25,767 |
| Insurance products | 10,740 | 20,777 |
| Brokerage | 8,448 | 8,817 |
| Factoring | 5,371 | 5,593 |
| Other | 10,747 | 23,466 |
| **Total fee and commission income** | **856,953** | **674,085** |
| **Fee and commission expense on:** | | |
| Credit/debit cards | 113,601 | 108,455 |
| Other borrowed funds | 767 | 2,026 |
| Brokerage | 2,559 | 2,555 |
| Factoring | 1,721 | 2,034 |
| Other | 35,609 | 50,861 |
| **Total fee and commission expense** | **154,257** | **165,931** |
| **Net fee and commission income** | **702,696** | **508,154** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 32 - NET TRADING, HEDGING AND FAIR VALUE INCOME

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| Foreign exchange: | | |
| - Translation gains less losses of trading assets | 84 | 474 |
| - Transaction gains less losses | 70,331 | 4,732 |
| Interest rate instruments | (4,535) | (4,845) |
| Net income from financial instruments designated at fair value | (1,801) | (424) |
| Equities | (9,711) | 3,386 |
| | **54,368** | **3,323** |

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, money market instruments, interest rate and currency swaps, options and other derivatives.

## NOTE 33 - OTHER OPERATING EXPENSES

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| **Staff costs** | **566,550** | **490,421** |
| Depreciation on premises and equipment (Note 15) | 59,367 | 69,484 |
| Amortisation of intangible assets (Note 14) | 21,580 | 16,819 |
| **Depreciation and amortisation** | **80,947** | **86,303** |
| Impairment charge on premises and equipment (Note 15) | 1,872 | 1,011 |
| Impairment charge on assets held for resale (Note 16) | 522 | - |
| **Impairment charge** | **2,394** | **1,011** |
| Communication expenses | 52,651 | 47,833 |
| Marketing and advertisement costs | 48,591 | 57,654 |
| Rent expenses | 43,765 | 30,297 |
| Sundry taxes and duties | 34,550 | 22,140 |
| Payment to saving deposit insurance find | 14,393 | 12,426 |
| Utilities | 13,152 | 11,054 |
| Repair and maintenance expenses | 12,777 | 11,369 |
| Audit and consultancy fees | 7,749 | 8,671 |
| Charity | 2,015 | 2,624 |
| Other | 168,369 | 103,636 |
| **General administrative expenses** | **398,012** | **307,704** |
| **Total** | **1,047,903** | **885,439** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 34 -IMPAIRMENT LOSSES ON LOANS AND CREDIT RELATED COMMITMENTS

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| Impairment losses on loans and receivables (Note 10) | 11,065 | 95,055 |
| Impairment losses on credit related commitments (Note 23) | (3,782) | (9,435) |
| | **7,283** | **85,620** |

## NOTE 35 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Assets | Related liability | Assets | Related liability |
| Balances with the central banks (Note 6) (*) | 3,354,295 | 49,188,507 | 2,752,989 | 41,713,570 |
| Trading securities (Note 8) | | | | |
| - repurchase agreements | 104,079 | 86,788 | 102,027 | 80,606 |
| Investment securities (Note 11) | | | | |
| - available-for-sale repurchase agreements | 21,981 | 21,981 | - | - |
| - held-to-maturity repurchase agreements | 498,750 | 460,044 | 1,764,891 | 1,999,106 |
| **Total** | **3,979,105** | **49,757,320** | **4,619,907** | **43,793,282** |

(*) Assets pledged with the central banks are pledged for the Group's reserve requirement.

As of 30 June 2008, trading assets given as collateral/blocked amounts to YTL24,453 thousand (31 December 2007: YTL54,274 thousand). Besides, available-for-sale investments securities amounting to YTL94,098 thousand (31 December 2007: YTL487,359 thousand) and held-to-maturity investment securities amounting to YTL2,836,284 thousand (31 December 2007: YTL1,429,683 thousand) were pledged to third parties, namely CBRT for legal requirements, Lehman Brothers, Bayerische Hypo-Und Vereins Bank AG, Barclays Bank London, and other foreign private financial institutions for borrowed funds (Note 17), ISE Settlement and Custody Bank Inc. and other financial institutions as a guarantee for stock exchange and money market operations.

## NOTE 36 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 30 June.

### Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 23).

In respect of the further claims asserted against the Group ,which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 36 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Group:

| 30 June 2008 | Indefinite | Not later than 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letter of credits | 1,475,663 | 1,624,791 | 351,381 | - | 3,451,835 |
| Letter of guarantees | 6,719,140 | 3,262,859 | 1,298,055 | 210,495 | 11,490,549 |
| Acceptance credits | 202,061 | - | - | - | 202,061 |
| Other commitments | 25,337 | 375,861 | 138,538 | 4,787 | 544,523 |
| **Total** | **8,422,201** | **5,263,511** | **1,787,974** | **215,282** | **15,688,968** |

| 31 December 2007 | Indefinite | Not later than 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letter of credits | 426 | 2,000,157 | 163,556 | - | 2,164,139 |
| Letter of guarantees | 6,354,208 | 1,465,169 | 2,907,231 | 335,435 | 11,062,043 |
| Acceptance credits | 184,493 | - | - | - | 184,493 |
| Other commitments | 48,395 | 107,642 | 313,241 | 135,598 | 604,876 |
| **Total** | **6,587,522** | **3,572,968** | **3,384,028** | **471,033** | **14,015,551** |

## NOTE 37 - SEGMENT ANALYSIS

The Group manages its business through five strategic business units: Retail banking, Corporate banking, Private banking and wealth management, Credit cards and Foreign operations.

*Retail banking* provides products and services to individual and small business customers. Products and services include general purpose loans, car loans, mortgage, deposits, investment accounts, life and non-life insurance products, payroll services, ATMs, telephone banking, internet banking and mobile banking.

*Corporate banking* is organized into two segments, namely Commercial Banking, which serves mid-sized company clients, and Corporate Banking, which serves large-sized company clients. Corporate and commercial banking activities include working capital financing, foreign trade finance, project finance, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management, investment banking and factoring and leasing services.

*Private banking and wealth management* serves affluent, high net worth and ultra high net worth customers of the Group and serves investment products to the Group. Activities include time deposits, fiduciary deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private banking and wealth management services are enhanced by investment advisory and portfolio management services provided by the Group's portfolio management and brokerage subsidiaries.

*Credit cards* segment under the umbrella brand of "World" include Worldcard, Worldgold, Worldplatinum, World Signia, Virtual Worldcard, Worlduniversity, Visa Business Card, Worldcard-Turkcell, Worldgold-Turkcell and Cagdaskart, each addressing the various needs of different types of consumers. It also provides POS merchant services for company clients.

*Foreign operations* segment includes banking activities of the Group in the Netherlands, Switzerland, Russia and Azerbaijan.

Other operations mainly consist of treasury transactions, operations of supporting business units, insurance operations and other unallocated transactions.

Transactions between the business segments are on normal commercial terms and conditions.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 37 - SEGMENT ANALYSIS (Continued)

| 30 June 2008 | Retail banking | Corporate banking | Private banking and wealth management | Credit cards | Foreign operations | Other | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Segment revenue | 582,700 | 515,358 | 156,334 | 491,421 | 43,705 | 622,470 | (196,849) | 2,215,139 |
| Segment result | 579,004 | 524,053 | 156,159 | 310,331 | 39,611 | 642,568 | (196,849) | 2,054,877 |
| Unallocated costs (1) | | | | | | | | (1,047,903) |
| **Operating profit** | | | | | | | | **1,006,974** |
| Share of results of associates | | | | | | | | 5,418 |
| **Profit before tax** | | | | | | | | **1,012,392** |
| Income tax expense | | | | | | | | (203,958) |
| **Profit for the period** | | | | | | | | **808,434** |
| Segment assets | 8,802,126 | 19,288,400 | 607,291 | 6,908,189 | 3,327,866 | 22,308,783 | (486,220) | 60,756,435 |
| Associates | | | | | | | | 49,082 |
| Unallocated assets | | | | | | | | 3,678,378 |
| **Total assets** | | | | | | | | **64,483,895** |
| Segment liabilities | 14,283,355 | 16,332,124 | 8,983,580 | 1,805,946 | 2,870,704 | 7,073,688 | (479,433) | 50,869,964 |
| Unallocated liabilities | | | | | | | | 8,094,189 |
| **Total liabilities** | | | | | | | | **58,964,153** |
| **Other segment items (1)** | | | | | | | | |
| Capital expenditure | | | | | | (58,612) | | (58,612) |
| Depreciation and amortisation | | | | | | (80,947) | | (80,947) |
| Impairment charge | | | | | | (1,872) | | (1,872) |
| Other non-cash expenses | | | | | | (160,262) | | (160,262) |

| 31 December 2007 (2) | Retail banking | Corporate banking | Private banking and wealth management | Credit cards | Foreign operations | Other | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Segment revenue | 466,198 | 439,936 | 142,570 | 455,554 | 45,078 | 382,027 | (174,914) | 1,756,449 |
| Segment result | 444,384 | 412,716 | 142,545 | 335,762 | 45,803 | 328,281 | (174,914) | 1,534,577 |
| Unallocated costs (1) | | | | | | | | (885,439) |
| **Operating profit** | | | | | | | | **649,138** |
| Share of results of associates | | | | | | | | 2,453 |
| **Profit before tax** | | | | | | | | **651,591** |
| Income tax expense | | | | | | | | (120,186) |
| **Profit for the period** | | | | | | | | **531,405** |
| Segment assets | 6,989,098 | 17,487,708 | 594,853 | 6,436,115 | 2,991,204 | 18,462,633 | (608,327) | 52,353,284 |
| Associates | | | | | | | | 38,220 |
| Unallocated assets | | | | | | | | 3,429,250 |
| **Total assets** | | | | | | | | **55,820,754** |
| Segment liabilities | 14,022,927 | 13,624,618 | 6,948,486 | 1,662,613 | 2,512,840 | 5,704,946 | (601,464) | 43,874,966 |
| Unallocated liabilities | | | | | | | | 6,879,114 |
| **Total liabilities** | | | | | | | | **50,754,080** |
| **Other segment items (1)** | | | | | | | | |
| Capital expenditure | | | | | | (51,008) | | (51,008) |
| Depreciation and amortisation | | | | | | (86,303) | | (86,303) |
| Impairment charge | | | | | | (1,011) | | (1,011) |
| Other non-cash expenses | | | | | | (221,872) | | (221,872) |

(1) The Group does not monitor its costs and other segment items based on segments.

(2) The figures above represents 30 June 2007 balances for profit/(loss) items.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 38 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by the Koç Group and UCI, owning 50% of the ordinary shares each of KFS.

A number of transactions were entered into with related parties in the normal course of business,

(i) Balances with related parties:

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | **Total** | **Share in total %** | **Total** | **Share in total %** |
| Loans and advances to customers, net | 746,012 | 2 | 633,843 | 2 |
| Loans and advances to banks | 358,496 | 10 | 6,702 | - |
| Marketable securities | 15,924 | - | - | - |
| Derivative financial instruments | 2,826 | 3 | 86 | - |
| Other assets | 66 | - | 137 | - |
| **Total assets** | **1,123,324** | | **640,768** | |
| Due to customers | 4,155,368 | 11 | 2,787,117 | 8 |
| Deposits from banks | 90,280 | 15 | 17,643 | 1 |
| Other borrowed funds | 1,311,431 | 13 | 620,170 | 8 |
| Other liabilities | 770 | - | 1,606 | - |
| Derivative financial instruments | 657 | - | 32 | - |
| **Total liabilities** | **5,558,506** | | **3,426,568** | |
| Credit related commitments | 617,159 | 4 | 638,314 | 5 |
| Commitment under derivative instruments | 400,469 | 4 | 188,006 | 2 |
| **Total commitments and contingent liabilities** | **1,017,628** | | **826,320** | |

(ii) Transactions with related parties:

| | 30 June 2008 | | 30 June 2007 | |
|---|---|---|---|---|
| | **Total** | **Share in total %** | **Total** | **Share in total %** |
| Interest income on loans and advances to customers | 40,098 | 2 | 38,805 | 2 |
| Interest income on loans and advances to banks | 1,125 | 1 | 1,694 | 3 |
| Interest income on financial leases | 2,294 | 2 | 4,134 | 4 |
| Fee and commission income | 3,982 | - | 5,649 | 1 |
| Other operating income | 2,833 | - | 428 | 1 |
| **Total interest and fee income** | **50,332** | | **50,710** | |
| Interest expense on deposits | (132,116) | 7 | (147,458) | 9 |
| Interest expense on funds borrowed | (40,205) | 15 | (3,422) | 1 |
| Fee and commission expense | (15) | - | (48) | - |
| Other operating expense | (3,489) | - | (2,102) | - |
| **Total interest and fee expense** | **(175,825)** | | **(153,030)** | |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 38 - RELATED PARTY TRANSACTIONS (Continued)

(iii) Balances with directors and other key management personnel:

| | 30 June 2008 | 31 December 2007 |
|---|---|---|
| Loans and advances to customers, net | 227 | 211 |
| Interest income on loans and advances to customers | 11 | 22 |
| | | |
| Due to customers | 22,899 | 19,825 |
| Interest expense on deposits | 458 | 977 |
| | | |
| Fee and commission income | - | 3 |
| Commitments and contingent liabilities | - | - |

Salaries paid to the Group's key management approximately amount to YTL7,023 thousand as of 30 June 2008 (30 June 2007: YTL7,604 thousand).

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

## NOTE 39 - ASSETS UNDER MANAGEMENT

At 30 June 2008, the Group manages 25 open-ended mutual funds (31 December 2007: 22) and 23 private pension funds (31 December 2007: 24), which were established under the Turkish Capital Market Board Regulations.

The details of daily management fee commission rates and net assets values for each fund is as follows:

| Name of the fund | 30 June 2008 % | 31 December 2007 % | 30 June 2008 YTL | 31 December 2007 YTL |
|---|---|---|---|---|
| **Mutual Funds** | | | | |
| Yapı ve Kredi Bankası A.Ş. B Tipi Likit Fonu | 0.013 | 0.013 | 3,395,008 | 3,682,460 |
| Yapı ve Kredi Bankası A.Ş. B Tipi Orta Vadeli Tahvil ve Bono Fonu | 0.006 | 0.006 | 217,593 | 331,445 |
| Yapı ve Kredi Bankası A.Ş. B Tipi Değişken Fon | 0.007 | 0.007 | 301,066 | 392,052 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Uzun Vadeli Tahvil ve Bono Fonu | 0.006 | 0.006 | 90,108 | 211,756 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Özel Portföy Yönetimi Değişken Fonu | 0.005 | 0.005 | 54,135 | 93,456 |
| Yapı Kredi Menkul Değerler A.Ş. B Tipi Likit Fonu | 0.009 | 0.009 | 312,293 | 367,798 |
| Yapı ve Kredi Bankası A.Ş. B tipi Özel Bankacılık Büyüme Amaçlı Değişken Fonu | 0.006 | 0.006 | 18,722 | 66,852 |
| Yapı ve Kredi Bankası A.Ş. B tipi Özel Bankacılık Değişken Fonu | 0.006 | 0.006 | 49,345 | 47,110 |
| Yapı ve Kredi Bankası A.Ş. A Tipi Özel Bankacılık İMKB Ulusal 30 Endeksi Fonu | 0.003 | 0.003 | 20,408 | 32,395 |
| Yapı Kredi Bankası A.Ş. A Tipi İMKB Ulusal 100 Endeksi Fonu | 0.010 | 0.010 | 7,518 | 11,995 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Özel Portföy Yönetimi Değişken Fonu | 0.008 | 0.008 | 4,437 | 5,448 |
| Yapı Kredi Bankası A.Ş. A Tipi Hisse Senedi Fonu | 0.010 | 0.010 | 16,525 | 22,388 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Koç Şirketleri İştirak Fonu | 0.010 | 0.010 | 2,987 | 4,441 |
| Yapı ve Kredi Bankası A.Ş. B Tipi Tahvil Bono (Eurobond) Fonu | 0.008 | 0.008 | 963 | 1,170 |
| Yapı ve Kredi Bankası A.Ş. A Tipi Koç Allianz Sigorta Özel Fon | 0.003 | 0.003 | 249 | 3,401 |
| Yapı Kredi Bankası A.Ş. B Tipi Büyüme Amaçlı Değişken Fon | 0.007 | 0.007 | 35,236 | 81,930 |
| Yapı Kredi Bankası A.Ş. A Tipi Karma Fon | 0.010 | 0.010 | 1,495 | 1,787 |
| Yapı Kredi Bankası A.Ş. A Tipi Yabancı Menkul Kıymetler Fonu | 0.010 | 0.010 | 915 | 354 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi İMKB Ulusal 30 Endeksi Fonu | 0.012 | 0.012 | 10,224 | 15,784 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Değişken Fon | 0.012 | 0.012 | 18,497 | 22,276 |
| Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Karma Fonu | 0.003 | 0.003 | 37,269 | 37,373 |
| Yapı Kredi Bankası A.Ş. B Tipi Dünya Fonları Fon Sepeti Fonu | 0.001 | 0.001 | 7,290 | 4,947 |
| Yapı Kredi Bankası A.Ş. B Tipi 100% Anapara Garantili Birinci Yatırım Fonu | 0.007 | - | 17,227 | - |
| Yapi Kredi Bankası A.Ş. B Tipi B Tipi Kurumsal Değişken Fon | 0.002 | - | - | - |
| Yapi Kredi Bankası A.Ş. B Tipi B Tipi 100% Anapara Garantili Gökkuşağı Yatırım Fonu | 0.010 | - | 87,525 | - |
| **Total mutual funds** | | | **4,707,035** | **5,438,618** |

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

## NOTE 39 - ASSETS UNDER MANAGEMENT (Continued)

| Name of the fund | 30 June 2008 % | 31 December 2007 % | 30 June 2008 YTL | 31 December 2007 YTL |
|---|---|---|---|---|
| **Pension funds** | | | | |
| Koç Allianz Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu | 0.0052 | 0.0052 | 175,000 | 155,149 |
| Koç Allianz İhtisaslaşmış IMKB Ulusal 30 Endeksi Emeklilik Yatırım Fonu | 0.0082 | 0.0082 | 16,278 | 22,700 |
| Koç Allianz Para Piyasası Likit Kamu Emeklilik Yatırım Fonu | 0.0052 | 0.0052 | 33,185 | 23,076 |
| Koç Allianz Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu | 0.0075 | 0.0075 | 15,644 | 16,104 |
| Koç Allianz Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 11,074 | 9,945 |
| Koç Allianz Gelir Amaçlı Kamu Borçlanma Araçları (Dövize End.) Emeklilik Yatırım Fonu | 0.0058 | 0.0058 | 4,803 | 4,039 |
| Koç Allianz Hayat ve Emeklilik A.Ş. ("Koç Allianz") Para Piyasası Emanet Likit Kamu Emeklilik Yatırım Fonu | 0.0060 | 0.0060 | 728 | 556 |
| Koç Allianz Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu | - | 0.0055 | - | 3,324 |
| Koç Allianz Gelir Amaçlı Uluslararası Esnek Emeklilik Araçları Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 3,543 | 3,327 |
| Koç Allianz Gruplara Yönelik Gelir Amaçlı Döviz Cinsinden Karma Borçlanma Araçları Emeklilik Yatırım Fonu | 0.0027 | 0.0034 | 197 | 196 |
| Koç Allianz Gruplara Yönelik Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu | 0.0041 | 0.0041 | 191 | 91 |
| Koç Allianz Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları | 0.0027 | 0.0034 | 5,099 | 799 |
| Yapı Kredi Emeklilik Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 38,798 | 48,755 |
| Yapı Kredi Emeklilik Esnek (YTL) Grup Emeklilik Yatırım Fonu | 0.0028 | 0.0028 | 1,840 | 1,409 |
| Yapı Kredi Emeklilik Esnek(Döviz) Grup Emeklilik Yatırım Fonu | 0.0028 | 0.0028 | 299 | 180 |
| Yapı Kredi Emeklilik Esnek Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 162,554 | 153,788 |
| Yapı Kredi Emeklilik Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 81,089 | 78,918 |
| Yapı Kredi Emeklilik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 297,365 | 261,887 |
| Yapı Kredi Emeklilik Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 42,137 | 39,150 |
| Yapı Kredi Emeklilik Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 2,013 | 1,903 |
| Yapı Kredi Emeklilik Para Piyasası Emanet Likit Karma Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 1,304 | 1,173 |
| Yapı Kredi Emeklilik Para Piyasası Likit- Kamu Emeklilik Yatırım Fonu | 0.0055 | 0.0055 | 138,361 | 111,344 |
| Yapı Kredi Emeklilik Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (Euro) | 0.0055 | 0.0055 | 3,409 | 2,432 |
| Yapı Kredi Emeklilik Gelir Amaçlı Kamu Borçlanma Araçları Grup Emeklilik Yatırım Fonu | 0.0028 | 0.0028 | 13,299 | 200 |
| **Total pension funds** | | | **1,048,210** | **940,445** |
| **Total** | | | **5,755,245** | **6,379,063** |

## NOTE 40 - POST BALANCE SHEET EVENTS

(i) In line with the YKB Board of Directors resolution dated 15 May 2008, the Bank started the process to increase its issued capital by YTL920,000,000 from YTL3,427,051,284 to YTL4,347,051,284 all in cash within the Bank’s registered capital ceiling of YTL5,000,000,000. The rights offering application was approved by the CMB on 11 July 2008 and with the Trade Registry on 15 July 2008. The rights subscription period took place between 18 July - 1 August 2008 and 99.85% subscription was achieved on 11 August 2008.

(ii) On 11 August 2008, KFS purchased, for YTL2.60 per share, nominal YTL325,000 of rights which were not exercised by minority shareholders during the pre-emption period between 18 July-1 August and which were offered on the primary market of ISE during the three day rump period between 7, 8 and 11 August. As a result of the purchase by KFS of above mentioned YKB shares, ownership of KFS in YKB has increased from 81.79% to 81.80%.

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