2008
ANNUAL REPORT


Türkiye

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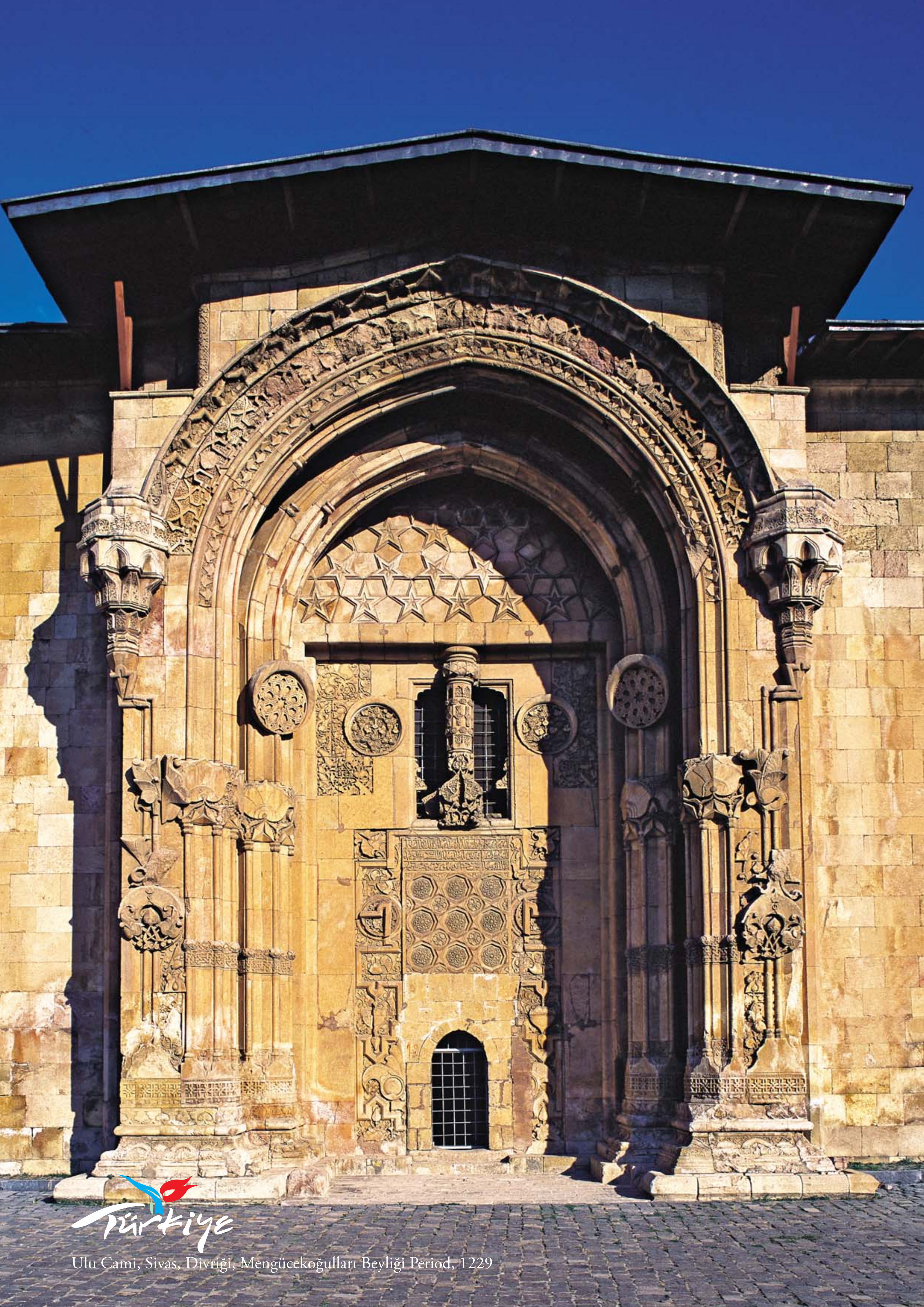


Ulu Cami, Sivas, Divriği, Mengücekoğulları Beyliği Period, 1229

SECTION I

General information

CONSOLIDATED FINANCIAL HIGHLIGHTS

Consolidated Financial Highlights, 2008 (Thousands TL)

Profit Sharing Income	508.106
Profit Sharing Expense	336.696
Fees and Commissions Income (Net)	125.689
Other Operating Income	221.904
Other Operating Expenses	222.928
Provisions	30.315
Profit for the Year (Net)	91.268
Total Assets	5.718.698
Total Shareholders' Equity	688.700
Capital Adequacy Ratio (%)	15,63

KUWAIT TURKISH PARTICIPATION BANK IN BRIEF

Founding, Nature of Operations, and Position in the Sector

Kuveyt Türk began banking and finance operations on March 31, 1989 under the commercial title of "Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi" with the support of internationally-recognized shareholders including Kuwait Finance House, the Turkish General Directorate of Foundations, the Kuwait Public Institution for Social Security, and the Islamic Development Bank.

The core business of Kuveyt Türk, whose commercial title changed to "Kuveyt Türk Katılım Bankası A.Ş." in 2006, is to devote capital and funds acquired from both domestic and international "Special Current Accounts" and "Profit and Loss Participation Accounts" to develop the Turkish economy and conduct a full range of financing activities within the framework of relevant regulations. Kuveyt Türk performs all of its financial activities according to the principles of "interest-free banking." Moreover, Kuveyt Türk encourages legal and real persons involved in agricultural, industrial, and commercial activities to invest; actively participate in joint ventures aiming to improve businesses and operations; and supports the local economy through the direct and indirect financing of these operations.

As of the end of December 31, 2008, Kuveyt Türk conducted activities with a total of 2,246 staff members employed at 113 corporate and retail branches and at one international branch in Bahrain. Kuveyt Türk's paid in capital of, 260,000,000 TL as of year-end 2007, increased 92.3% to 500,000,000 in 2008. Kuveyt Türk's total assets, as of December 31, 2008, were up 48 % over the previous year's to 5,718,698,000, despite austerer economic conditions.

With a senior management of extensive experience and a strong leadership vision along with a dynamic and highly skilled staff possessing a deeply-rooted understanding of our corporate culture, Kuveyt Türk is committed to driving both innovation and expansion in the banking sector, while continuing its international branching and representative operations to preserve its title as the bank with the largest network of international correspondents of any other participation bank in Turkey. Backed by a strong capital structure and the global relations and interest-free banking experience of its parent company, Kuwait Finance House, Kuveyt Türk places the utmost importance on improving its pioneering services in international commercial operations in the Gulf region mainly through its Bahrain branch.

Having more say in internationally-funded commercial activities and increasing resource channels for investors in the Gulf region are among the fundamental goals of Kuveyt Türk, which has adopted "contribution to the development of the national economy" as its motto. Kuveyt Türk has used its advantage of being the first participation bank to enter the retail banking sector and has sustained its leading position in this area, thanks to its ability to develop innovative products. Moreover, Kuveyt Türk presents one of the widest arrays of products to its customers among the participation banks and has the largest portfolio in the real estate area. Kuveyt Türk has been the first bank to subject its customer base to segmentation, which in turn focuses on creating high-quality customer service, building long-term relations with customers, and establishing a loyal customer base. Kuveyt Türk has also been the first to initiate forward rates in forward exchange transactions in order to protect importing and exporting firms from sudden market fluctuations resulting from uncertainties in the economy.

POSITION IN THE BANKING SECTOR

Thanks to prudent policies and a sound capital structure, the Turkish banking sector successfully completed 2008, having endured serious testing due to the global economic crisis. Acting on the "sound banking" principle, Kuveyt Türk climbed to the top among participation banks by increasing its tier-one capital and net income by 76% and 40%, respectively. Also boosting its total assets by 48%, despite the crisis, Kuveyt Türk ranked first in its sector in terms of performance improvement.

Kuveyt Türk introduced gold trading service in grams along with Turkey's first "Gold for Gold" participation account earning cash returns and the GoldCheck (AltınÇek) product as an alternative to quarter gold coins, aiming to bring gold "mattress-savings" into the national economy. Thanks to the Gold Swap transactions initiated with manufacturers, Kuveyt Türk has a say in the gold and precious metals arena and is able to compete against major banks in retail banking. Kuveyt Türk's target for Gold Participation accounts in the first year is a market goal of US $100 million. Kuveyt Türk has an ongoing project in gold importing and exporting with the Istanbul Gold Exchange to physically open a gold account. Moreover, Kuveyt Türk is aiming to collaborate with international refineries as well.

A HISTORY OF KUWAIT TURKISH PARTICIPATION BANK

1989 Kuveyt Türk Evkaf Finans Kurumu Anonim Şirketi (Kuveyt Türk Evkaf Finance House) begins banking and finance operations on March 31st with a capital of 15 billion TL.

1990 Kuveyt Türk receives a gold medal for its contributions to the garment industry. Company's capital is increased to 30 billion TL.

1995 In recognition of its contributions to exports, the General Secretariat of Istanbul Textile & Apparel Exporters Association awards Kuveyt Türk a gold medal.

1996 Kuveyt Türk's subsidiary Körfez Gayrimenkul A.Ş. is established.

2000 The Kuveyt Türk's branch network reaches 24 in just ten years. The Retail Banking unit is established. Kuveyt Türk becomes the first interest-free financial institution in Europe to receive ISO 9001-2000 Quality Certification.

2002 Kuveyt Türk becomes the first special finance house to be a member of Visa International. Kuveyt Türk moves its Istanbul head offices from Mecidiyeköy to its current high-tech building in Esentepe.

2003 In order to provide banking services in every corner of Turkey, an agreement is reached with the Turkish Post (PTT), which has nearly 1,000 online branches.

2004 Sizcard, Turkey's first and only truly interest-free credit card is launched. The bank's first European Representative Office opens in Munich. The company's capital is increased from 95 million TL to 199 million TL.

2005 In recognition of its contributions to interest-free banking in Turkey, Kuveyt Türk receives an award at the International Islamic Finance Forum held in Istanbul.

2006 The bank officially changes its name from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. The US $50 million four-year tenor murabaha syndication secured for GAP Güneydoğu Textiles is the longest tenor interest-free syndication secured from the Gulf states for any Turkish company. Fitch Ratings upgrades Kuveyt Türk's Individual Rating from D/E to D and the bank's AA (-) long-term national rating to AA (tur). The US $200 million murabaha syndication that Kuveyt Türk secured from banks in the Gulf region and in Europe is a first in Turkey and oversubscribed by US $65 million, closing at US $265 million, pointing to the importance of a strong rating.

2007 When the international credit rating institution, Fitch Ratings, revised Turkey's credit rating, it also raised Kuveyt Türk's rating. Fitch Ratings increased Kuveyt Türk's long-term TL denominated credit rating from BB+ to BBB- and its short-term TL denominated rating from B to F3. In another first for a Turkish participation bank, Kuveyt Türk introduced FX forward transactions. At its 19th Annual General Shareholders Assembly, the bank's capital was increased by 30% from 200,000,188 TL to 260,000,000 TL. Joining the Istanbul Gold Exchange, it also became the first participation bank to offer its customers the opportunity to purchase gold by the gram.

2008 Despite the global financial crisis, the bank's net profits and net assets grew by 36% and 70%, respectively while capital increased from 260,000,000 TL to 500,000,000 TL, as announced at the 20th Annual General Shareholders Assembly. Many innovative products like Gold Swap, Gold for Gold, and GoldCheck have been developed to bring the gold that Turks store "under the mattress" into the national economy. We also expanded our branch network by 31%, increasing number of branches to 113.

SHAREHOLDING & CAPITAL STRUCTURE
CHANGES MADE TO THE ARTICLES OF INCORPERATION

Kuveyt Türk Katılım Bankası A.Ş.

Partnership and Capital Structure

	Name/Title of Partners	Total Share Value (Thousands TL)	Share Ratio (%)
1.	Kuwait Finance House	311,173	62.23
2.	Republic of Turkey General Directorate of Foundations	93,596	18.72
3.	Kuwait Public Institution for Social Security	45,000	9.00
4.	Islamic Development Bank	45,000	9.00
5.	Other Real and Legal Partners	5,231	1.05
TOTAL		500,000	100%

- With more than 10% shares each, Kuwait Finance House and the Republic of Turkey General Directorate of Foundations qualify as key shareholders according to the Banking Law.
- The total shares of the bank's capital held by the Chairman and members of the Board of Directors, the general manager, and assistant general managers is 0.18%.
- In a meeting of the Board of Directors on March 25, 2008, a motion was made to amend the Articles of Association, Article 7 related to capital. This motion was accepted by the Ordinary General Assembly on April 24, 2008 thereby increasing the bank's capital from 260,000,000 TL to 500,000,000 TL. The Articles of Association have been amended accordingly with no other changes made for 2008.

CHAIRMANS' LETTER

Dear Shareholders

We are a very young bank. However, we are taking concrete and dedicated steps towards the future with the strength we draw from our human values, business ethics, and corporate culture as well as with the enthusiasm and determination we gain from the unfailing support of our prestigious partners and shareholders. In 2009, the year we celebrate our 20th anniversary, we are proud and honoured to be pioneers of participation banking in Turkey, which already represents nearly US $800 billion in total assets, as one of the fastest growing financial businesses worldwide. At Kuveyt Türk, our goal is to become a leading bank in Turkey and also in the region without compromising our core principles and values.

Kuveyt Türk set off on its journey in 1989 at our head quarters and central branch in Istanbul. The bank; has consistently developed without sacrificing rapid branching and continuous growth strategis in order to create funds for the national real sector and investment operations through the interest-free loan system. Even in 2008, in the midst of a global economic downturn veering towards a depression, Kuveyt Türk viewed this crisis environment as an opportunity and opened new branches in Turkey, demonstrating our determination to continue growing. Parallel to our growth and profitability goals, our bank is aiming to have 170 branches by 2010. To develop banking infrastructures and business dynamics to meet our customers' needs and expectations and to enroot a corporate culture built on professionalism and sustainability, Kuveyt Türk has continued, even sped up, investing in people and technology despite the crisis, hence expanding and bringing a new dimension to the sector.

Kuveyt Türk places great importance on growing nationally as well as internationally, and hence aims to bring the Gulf region, Middle Asia, and Europe-based Islamic funds and investors into Turkey to support our national economic development. In an effort to serve fund owners wanting to transfer their savings to Turkey, Kuveyt Türk is initially preparing to turn our representative office in Germany into a financial services branch and to open a representative office in Kazakhstan.

In 2009, we are aiming to improve our participation banking concept through our rapidly growing branch network and our innovative product and services portfolio for SMEs with high credibility and for retail and corporate customers that provide added value to us, through our rapidly growing branch network channel and our innovative products and services portfolio. Moreover, we intend to focus on individual loans and credit cards as well as to expand our SME loan portfolio, which in turn will increase the share of SME loans to 15 % of the total loans by 2010. Also, we are planning to meet cash and non-cash needs of firms operating in the Gulf region and in Turkic countries in the foreign trade and construction sectors and to increase our share in the project financing area.

Every year, Kuveyt Türk provides hundreds of millions of U.S. dollars in syndication loans to our customers for use in financing. Our Bahrain branch especially has very successful and effective operations in this area in the Gulf region. In 2008, we provided resources of US $442 million to Turkey and increased our total deposits by more than 100% to a record-setting US $103 million. Moreover, in order to introduce our participation accounts to our international correspondent banks, we have provided these banks with opportunities to open up participation accounts with Kuveyt Türk. The ability to gather funds from foreign markets within this framework during rough times in the global crisis has helped Kuveyt Türk to demonstrate its prestige to international banks and financial institutions.

Finally, how our bank views the global crisis is worth mentioning. This crisis began as a financial crisis resulting from the avaricious approach and excessive and incorrect credit evaluation processes of banks and financial institutions, spreading to the real sector in a short time, wreaking havoc on the world and putting us on the verge of a long-term economic depression. However, every crisis is a positive opportunity in itself, tantamount to a test that distinguishes the good from the bad, the strong from the weak, and as the wise ascend with greater strength, the unwise perish. In that respect, with the support and experience of our shareholders and Kuwait Finance House – the world-giant of interest-free lending – along with all our prestigious partners, not to mention the respect and trust we have for the magnificent human potential and the strong economic development of Turkey, our principles and values will continually guide us in 2009, the year we celebrate our 20th anniversary, to prove our capacity and to carry our brand to the next level. And with our bank always associated with successful projects in the international finance arena, our staff members, who believe in sound management and selfless dedication, will forever enlighten our path to become one of the top ten banks in Turkey by 2010.

Therefore, I would like to once again note that during such hard times as these when the global crisis is rapidly taking over the world and the Turkish banking sector is undergoing a truly challenging test, our bank has proved its achievements in nearly all areas. Being able to present such a successful year-end report for 2009, giving news of our growth, is truly wonderful and gratifying. Once again, I would like to express my gratitude to all of our employees who have contributed to the success of Kuveyt Türk, having proved that our, success is sustainable by ending 2008 with such great results.

Kuveyt Türk is committed to stand by the productive people of Turkey and to be at their service. Our products, services, and standards strengthen the real sector, guarantee the investments, and alleviate our customers' pessimism about the future, as we remain the safeguard of the Turkey's industry, entrepreneurs, investors, and citizens.

Mohammad S.A.I. AL OMAR

Chairman of the Board

CEO'S LETTER

Dear Shareholders

We are successfully concluding 2008, a year replete with economic difficulty and adversity for our country and for the entire world. Looking back on our 19 years of operations, this outlook does not surprise us, being especially attributed to our banking policies and principles, meticulously and consistently applied, and to our human approach. Our superior competitive skills are the most important factor engendering this achievement, resulting from our team spirit showing an eagerness to work created by our professional managers of unequalled intelligence and from the support of our strong partners and shareholders.

Compared to last year, our 2008 profits showed a remarkable 36% hike to 91 million TL, the leading indicator of our bank's stability. While our assets expanded by 48% to 5.72 billion TL, our credit stock improved by 39 % to 4.16 billion TL. However, in this year's fourth quarter, the ominous economic outlook, due to volatility in the currency rates resulting from the global financial crisis, led to a rapid decline in markets, looking askance at taking risks. Accordingly, our bank pursued a conservative strategy, preferring to remain liquid. As a result of a reduced volume in loans, our Loan Portfolio remained at US $2.80 billion or 75% of the budget. Similarly our Contingent Risk which stood at US $1.82 billion at the end of 2007, our Non-Cash Risk Balance increased by approximately 40% to US $2.54 billion by year-end 2008.

In essence, our bank gives priority to continuity in our client relations, thus suffering no significant losses in deposits, apart from minor block losses, resulting from sensitivity to gains, as we managed to increase our 2008 year-end deposits by 45% year-on-year.

In 2008, we met our budget goals in the collection of commissions; our successful cash loan performance during the first three quarters of the year particularly supported the collection of these commissions. Although fund allocations dropped and foreign exchanges increased in the fourth quarter of the year, the rate of the collection of commissions equalled 42%.

The fact that we expanded our paid-in capital from 260 million TL to 500 million TL, even before the global financial crisis in 2008, reinforces the confidence and respect of international markets in our banking operations and in our credibility. Being granted a BB by Fitch Ratings based on our strong partnerships and financial structures, our bank was awarded the highest rating in the country in this field. Moreover, we have made noteworthy accomplishments in global banking and have established relations with approximately 1,000 international and local correspondent banks in 96 countries. Especially in 2008, we focused on countries in the Gulf region, in the Middle East, and in Northern Africa, establishing relations with new correspondent banks. Although faced with an expected contraction in foreign trade volume in Turkey, our bank has intuitively managed to turn the crisis into an advantage, thus creating a window of opportunity to develop intermediate foreign trade transactions, particularly exports, and to build up our market share significantly in 2009.

Known for its innovative approach, our bank has developed many loan syndications, club transactions, and financial structuring projects, leading the way in successful alternative financing. The cooperation established in 2008 with International Islamic Trade Finance Corporations, as set up by the Islamic Development Bank for financing foreign trade, will enable our bank to provide our clients a new foreign trade financing product, aiming at financing imports. This particular import product is a first in Turkey, and we plan to provide this product to our customers in 2009. In terms of financing, our "matched murabaha" transactions, another innovation, provides ease and advantage, particularly to our SME clients.

Leaving our mark on the industry with activities in precious metals and commodity markets, recently starting with gold, our bank has become a candidate as one of the most important players in the Istanbul Gold Exchange based on our transaction volume in 2008. Recently trading in other metals such as silver and platinum, our bank is determined to enhance our success in the years to come. Similarly, in 2008, our bank started distributing dividends in different foreign exchanges, creating a difference among Participation Banks, and we also developed Swap Participation Accounts to make use of savings in exchanges other than in the Turkish lira, the U.S. dollar, and the euro. Again last year, our bank introduced Forward Exchange Transactions to include the British pound sterling, the Swiss franc, and the Japanese yen in our transactions, while introducing cross-rate transactions pairing other currencies apart from the Turkish lira.

Ultimately, people are our most fundamental asset. Our bank combines an enterprising approach with a warm kindred spirit in a professional multi-cultural society, and one experiences this atmosphere of self-confidence at every level in our bank. In 2008, following this belief, we expanded our branch network; likewise, with technological support, we enlarged our geographical coverage through alternative delivery channels and diversified platforms. Finally, when compared to year-end 2007, we increased our number of employees from 1,799 to 2,246, contributing to a qualified, professional workforce in Turkey.

Our bank is proud of being a young bank. Approaching our 20th anniversary, acknowledging lessons learned from the past, we are determined to continue to be the zenith of the Turkish financial industry in keeping with our founding principles and code of conduct.

Ufuk UYAN

CEO

Süleymaniye Mosque, view from the Golden Horn.

AN OVERWIEV OF OPERATIONS

CORPORATE BANKING

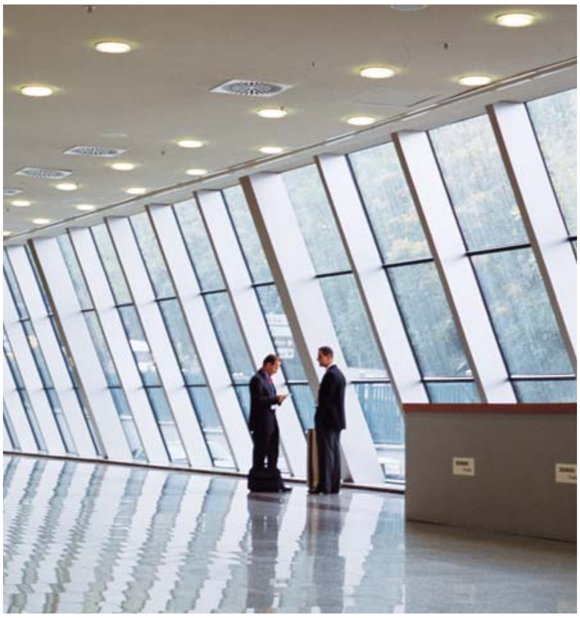
Kuveyt Türk's goal in our corporate banking business segment is to meet cash and non-cash financing needs of large and medium-size industrial and commercial enterprises and to provide advice on and evaluation of banking products and services, with our specialized staff in international trade, cash, and treasury management, as well to offer all other banking needs with the requisite technical infrastructure and support. Our bank has accepted the principle of providing the best service to our corporate customers, and our organizational structure and staff may be allocated on a company, sector, segment, or regional basis.

The improvement of our products and services in corporate banking in 2008 has been below our budgeted targets because of our bank's desire to keep costs and risks very low, even as our customers have suggested, due to the economic recession and financial bottleneck affecting the entire world. Nonetheless, thanks to our strong partners and capital structure and the desire to turn the global economic crisis into opportunities, our bank provided continuous service to our healthy customers. Thus, our credibility and commercial prominence in the eyes of our customers and business partners have improved.

The global economic crisis began in the middle of 2008 in the U S. and continued with increasing effects through the beginning of 2009. Just as it has affected the national economies of every country, it has affected our national economy as well. While local and foreign entrepreneurs have put their investments on hold during these times when uncertainties have peaked, foreign exchange rates have begun fluctuating upwards and credit rates have increased. Moreover, the desires of banking and financial institutions to consolidate risks and their reluctance to provide liquidity in the market have caused markets to stagnate and economic growth to slow down. This in turn has caused the banking needs of our customers and hence our bank to change priorities to more conservative investment products. Within this framework, our funding in the final quarter of the year ran parallel to the reduction in our cash and non-cash risks and in the constriction of corporate participation shares as of the second half of the year.

Corporate and Commercial Banking

Despite the global economic crisis that originated from the finance sector and rapidly spread to the real sector, our Corporate Banking Business Segment had a successful year in 2008, in line with our bank's objectives and has continued to lead the participation banking sector through its innovative products developed in parallel with the financial advice provided to our customers. In light of the global economic crisis, our Corporate Banking business segment rapidly consolidated all of its risks and allocated all of its funds to meet the critical financing needs of our customers in the real sector. Moreover, our Corporate Banking business segment expanded and enriched its quality of service and area of activity through key customer and sector-based growth policies put into effect. At a time when there is a global liquidity crisis, our Corporate Banking business segment meets quick and critical funding needs of the real sector through credit-based international trade financing services and new financial products provided to our customers. Since our customers are currently very sensitive and careful about production and operation costs during these critical times, by guiding them to our alternative distribution channels, they are able to reduce costs and improve productivity.



Cash Funding Performance

Cash Risk Performance

The cash risk balance moved along with the budget in the first quarter of the year. Then parallel to the negative effect of political developments in the market, the cash risk balance remained flat; and when we increased our capital in May, it began moving upwards. However, when the banking sector preferred to remain liquid as markets rapidly became much riskier, credit volume was reduced in October. Moreover, with the effects of foreign exchange rates increasing by nearly 27%, the risk asset balances could only meet 75% of the budget by the end of december.

Corporate Deposit Performance

Our bank had 775 million TL in total deposits by the end of 2007. In 2008, in parallel with the weakening performance of deposits in the banking sector, we fell under our targeted amounts. In October and November, when the effects of the global economic crisis could truly be felt, deposit interest rates increased rapidly because of the excessive demands of deposits in banks. Although we were unable to be as flexible as needed, due to the structure of our organization, we did not lose more than a couple of blocks of deposits that were very sensitive to returns. Nevertheless, we managed to increase our total deposits by 41%, reaching 1,093 million TL by the end of December 2008.

Corporate Banking Product Development

Kuveyt Türk provides effective and productive solutions to its customers with corporate banking products and has maintained its customer-oriented and innovative banking approach in 2008 through continuous development and provision of new and needed products for the sector.

In parallel with this vision, our bank in 2008 set itself apart from other participation banks and initiated sharing profits and developed Swap Participation Accounts, where savings of all currencies, including the Turkish lira, the U.S. dollar, the euro, and other currencies, may be invested. These accounts were initially opened to the British pound sterling and the Swiss franc.

Our Corporate Banking Group has implemented the Direct Collection and Debiting System, a cash flow and payment management system custom designed to meet the financial needs of our corporate customers.

Running parallel with the latest developments in the banking sector and the demands and needs of our customers, Financing with Early Payment Option possibility has also been implemented this year.

Our bank aims to provide not only a wide range of products to our customers but also exceptionally high-quality service. Hence, Kuveyt Türk prepared the Standing Cheque Program, which will make the lives of our corporate customers' lives easier, and presented the proram to our customers without charge.

In addition to these improvements, our bank has added the British pound sterling, Swiss franc, and Japanese yen to foreign currencies tradable in the Forward Agreement, initiated about a year ago, in an effort to provide better service to our customers. The ability to apply forward FX agreements not just to TL/foreign currency transactions but also to other parities will prove to be very beneficial to our customers working with various foreign currencies.

As it did in 2008, our Corporate Banking Product Development unit will continue to offer new products and services in 2009 intended to provide high-quality and exceptional service and to meet all kinds of banking needs our customers may have. In line with this objective, we are planning to implement derivative products and financing tools, whose preparations began in 2008, and we will continue monitoring the progress in the sector for development of new products.

Corporate and Commercial Credits

The responsibility of the Corporate and Commercial Credits Department is to present Financial Analysis and Trade Intelligence (FATI) analysis reports and requests received from branches to the relevant committees. While working in collaboration with the branches and other relevant banking units, the Corporate and Commercial Credits Department updates evaluation processes in line with the latest developments; hence, it is able to collect more precise data for the sector.

In 2008, the Corporate and Commercial Credits Department made a total of 9,982 decisions related to companies. They meticulously assessed the financial standing of applicants and also evaluated the investment for which the credit facility would be used. All evaluations were made by visiting the customer and conducting a thorough analysis of the company's finances as well as of the type of investment for which the line of credit would be used.

Roughly 50% of the evaluations were positive and resulted in the renewal of credit lines or line increases for companies with existing credit lines or assignments of new credit lines for new customers. In 2008, 3,581 companies applied for new funds and 60% of these applications were approved. New credit lines assigned in 2008 exceeded US $1.6 billion.

Credit experts at Kuveyt Türk apply proven and internationally-accepted methods to include customer visits, financial analysis, and intelligence-gathering and reporting followed by a complete analysis of the projects in question, the repayment values, and viabilities. With this approach, Kuveyt Türk has become a financial institution with one of the highest international credit ratings among its peers in Turkey.

We began restructuring the corporate credit process in February 2008 and plan to complete the process and roll it out in 2009. The Credit Department will continue to draw on its superior infrastructure and experienced staff to provide Kuveyt Türk customers with fast, responsive, high-quality services.

Financial Analysis and Trade Intelligence (FATI)

The responsibility of the Financial Analysis and Intelligence (FAI) function is to gather information about companies applying for credit, their trade characteristics, capacity, liquidity, financial standings, profitability, and operations and to use this information to determine credit worthiness. This credit worthiness testing process is supported with research conducted through market databases, our databases, and those provided to all banks and subjected to trade intelligence.

When we approve credits for companies, we act according to the fundamental principles of security, liquidity, and profitability. In other words, customer needs related to payback conditions, amounts, terms, collaterals, and pricing should be identified correctly, parallel to security, liquidity, and profit principles. In order to efficiently access this data, FATI takes part in our bank's lending process by through providing clear and understandable financial analysis reports, which may be corrected, if necessary, in light of the intelligence research conducted. Financial Analysis and Intelligence aims to minimize possible risks and maximize profitability in such processes.

In 2008, Financial Analysis and Trade Intelligence analyzed company requests for 3,118 new customers and for 2,634 existing customers and then visited these customers on their premises in line with our corporate culture and target responsibilities. Over 9,000 bank intelligence reports have been obtained for these case files. As part of these visits and trade checking, a total of 5,752 company case files were evaluated and presented to the Corporate Credits along with the opinions of managers and experts in the Financial Analysis and Intelligence.

In line with the growing and developing structure of our bank, restructuring of the FAI process began in February of 2008 with improvements in the technological infrastructure to be completed and implemented in 2009. Financial Analysis and Intelligence will continue to draw on its superior infrastructure and experienced staff to provide Kuveyt Türk customers with fast, responsive, high-quality services.

RETAIL BANKING

Turkey's power comes from the savings and entrepreneurial investments of its individuals. Kuveyt Türk set out with the desire to serve by believing in the power of those individuals in Turkey, the fundamental principle of "Healthy Banking," hence placing greater importance on Retail Banking. Kuveyt Türk aims to spread the products and services provided to its Retail Banking customers throughout the country. To do so, Kuveyt Türk continually expands its Branch Network and Alternative Distribution Channels and at the same time persistently improves its range of products and services with innovative products.

Gold Swap

Kuveyt Türk has become an expert bank in precious metal trading and derivative products. Kuveyt Türk began providing services to jewellery producers through the Gold Swap service provided for the first time in 2008. Through this service, producers can put their savings to use and can borrow the gold they need in their businesses in return.

GoldCheck (AltınÇek)

Kuveyt Türk, providing customers with Gold Deposit accounts the opportunity to buy entry-based gold in grams, has now developed the GoldCheck (*AltınÇek*) product as an alternative to the quarter gold coin and has provided customers with a new investment opportunity. GoldCheck, a first in Turkey, presents gold, which has become one of our traditional gift-giving customs, in the form of a gift certificate, making it safer and more practical. With the GoldCheck, neither the giver nor the receiver carries the risk of physically possessing or carrying gold. Anyone who visits our branches may obtain a GoldCheck for the amount they wish and give it to whomever they want. GoldCheck, available in 1, 2, 5, and 10 grams, is very beneficial for both the giver and the receiver. Customers who buy the check pay the equivalent value of the GoldCheck based on market prices, in cash, or if they have a gold or current account with our bank, they can obtain their checks from those accounts. Those who want to cash the checks may simply bring their GoldCheck to our branches and either receive cash for the value of the check, based on a rate according to market prices, or open up a Gold Deposit account with our bank and deposit it there. As a result, handling fees and similar differences in trading applicable in the market do not affect them.

Silver and Platinum trading

In addition to providing gold trading services, Kuveyt Türk provides customers with the opportunity to invest in precious metals at current prices. Along with this, Kuveyt Türk has offered customers another ground-breaking service: investment in silver and platinum. Kuveyt Türk is the first bank to provide such services. The silver and platinum our customers buy for investment purposes are kept at the Istanbul Gold Exchange on their behalf.

New Joint Venture Projects

In addition to being used in jewellery, gold is traded for purely investment purposes in Turkey and in the world, and there are nearly 5,000 tons of gold jewellery and investable gold holdings in Turkey. With this in mind, Kuveyt Türk has ongoing projects at the Istanbul Gold Exchange and is continuing to collaborate with international refineries for gold trading in order to bring the gold potential in "mattress-savings" into the national import and export economy.

In order to meet the physical gold demand of customers who want to resume the tradition of investing their savings in gold, Kuveyt Türk is planning to work on a joint project with the Istanbul Gold Refinery in 2009 to open a physical gold account for the refinery's 10-gram-stamped gold. Hence, customers will be able to add this gold to their existing entry-based term deposit accounts.

Alternative Delivery Channels (ADC)

Web Site and Internet Banking: Customers may obtain detailed information on Kuveyt Türk and our products from the Bank's Web site. With renewed and easy-to-use interfacing and design, customers may can easily access information, ranging from our financial reports to our services in both English and Turkish. Moreover, our Web site is a bridge to our Internet Branch. Customers may perform nearly all transactions on our Internet Branch site as they normally would with our tellers. Transactions performed from the Internet Branch are free and available to both retail and corporate customers. The Kuveyt Türk Internet Branch is equipped with high-security applications with unique security solutions like Account Locking, Identified Receiver Limiting, Country Limiting, Encryption, and Turkcell Mobile Signature. The Kuveyt Türk's Internet Branch offers a wide range of transactions like gold transactions, mass money transfers, POS transactions, and stock transactions.

ATM: With their renewed systems, name, and functions, Kuveyt Türk's ATMs are able to perform nearly all services like money depositing and loose change transactions. We are aiming to place ATMs in locations beside branch premises to provide better services to our customers. Kuveyt Türk's ATMs now have a new identity with new thematic exterior designs and a new name, İşlematik. Having our ATMs perform transactions completed through tellers or the Internet Branch will not only improve our branch operations but will also allow customers to perform their transactions much faster.

POS: In 2008, Kuveyt Türk met the unique needs of our customers with greater flexibility in products geared towards online shopping, associations, and private educational institutions through our new Internet POS and software POS terminals, called Net POS and Net COLLECTION. Moreover, the infrastructure of Net COLLECTION POS has laid the groundwork for the Palm Card.

Credit Cards

MasterCard Certification: In addition to our existing membership with VISA, we have established a certification with MasterCard as well; hence, our card selection has expanded.

Banksoft In-house Transition: Within the scope of in-house transition plans, our intention to bring both the credit cards operations and statement printing processes under the auspices of our bank will be made possible through Banksoft integration. With Banksoft software, our system infrastructure will be renewed and modernized, and features, previously unavailable, like instalments, point-based rewards systems, and special offers, will be offered to our credit card customers, hence increasing our competitive strengths.

Discount Offers: In an effort to establish and support a public opinion of a bank that protects consumers, stands beside them, and encourages them to save, we presented our existing credit card customers with appealing discount offers. With that in mind, in agreement with the one company, we launched a discount promotion in August 2008. From the data collected, we saw that our customers were extremely satisfied with this campaign.

Direct Collection System and Direct Debiting System

These systems, launched in July 2008, allow companies working through a network of dealerships to manage their cash flows securely via the automatic cash transfer method. Its purpose is to provide a product that meets the needs of our small enterprise and corporate customers working with a network of dealerships and to expand our customer portfolio in this segment. Small enterprises and corporate customers are the target audience.

Corporate Social Responsibility Projects

Education: Our bank has traditionalised our corporate social responsibility projects. Every academic year, our unit organises activities to support education throughout Turkey and distributes stationary materials to students in many schools. Our Minister of National Education has honoured our bank with a letter of appreciation for our contributions to Turkish national education.

Joint Activities with the TEGV (Turkish Educational Volunteers Foundation): As the TEGV implements social responsibility projects with the leadership of our youth under adult guidance, our bank gave material and moral support to the foundation's 2008 activities to help our youth build a future.

Social Welfare Projects: For Ramadan 2008, with the *Iftar* meal distribution project implemented in many cities, particularly in Istanbul, *Iftar* meals were distributed to those individuals who either missed *Iftar* or were in need. To further social solidarity, our bank has planned unorthodox activities rather than customary projects and has led the way with projects for newlyweds in need and for male children to be circumcised. At one of the largest combined wedding and circumcision feasts, organised with Eyüp Municipality, including ten thousand people, our bank distributed our innovative *Altinçeks*, an alternative to quarter gold coins.

Culture and Art: In Bursa's historical Kozahan building – constructed by Beyazıt Han in 1491 to become an important commercial centre on the Silk Road for silk dealers and textile sellers for centuries – our bank has restored works of art, including a subsurface pond and a small mosque on top, to their authentic forms. In the restoration, lasting about three months, these valuable works of art received detailed care and were eventually revived. Furthermore, our bank has conducted research into historical fountains, those practically vanishing or struggling to survive, and has published a prestigious catalogue, "Lost Fountains," to bring these fountains to light. In the first month of the year, our bank carried out press launchings and exhibitions on the historical *Sepetçiler Kasrı*. The program prompted great interest from leading figures in politics, particularly from our minister of culture, from various history, literature, art, and education circles, and from the media, subsequently finding a wider audience. After this program, the "Lost Fountains" exhibition was displayed in Taksim metro, staying on for a week, reaching a wide audience of academics, homemakers, workers, students, among others, and giving an opportunity to promote our bank's approach to corporate social responsibility.

INTERNATIONAL BANKING (International Banking Business Segment)

The International Banking business segment, in addition to providing leading private sector companies with the funds they need to become internationally competitive, draws on Kuveyt Türk's strong financial structure and the support of our largest shareholder, Kuwait Finance House, to successfully arrange large-scale international finance transactions.

Our International Banking business segment is made up of International Banking, Treasury, Investment Banking, and Investor Relations. These are the fundamental responsibilities and objectives of the International Banking business segment:

- Establish and improve the global correspondent bank network the bank needs to intermediate foreign trade and international payments;
- Ensure that excess liquidity is invested to derive profit;
- Manage foreign currency position and liquidity balance within the framework of the bank's policies;
- Work towards finding and receiving low-cost and long-term foreign sources of funds via international branches and correspondent bank networks; and
- Meet customer funding needs through structured financing products like murabaha syndications and club transactions.

Treasury

The primary role of our Treasury Department is to manage the bank's liquidity and market risks. Although the unit conservatively managed these risks, our bank surpassed our profit goals in 2008.

The Treasury Department carries out their responsibilities within four independent units:

- Money Markets
- Foreign Exchange Markets
- Precious Metals and Commodity Markets
- Treasury Marketing

Considering rising transaction volumes and global fluctuations, our Money Markets unit is now working with an extended number of international banks and has expanded their geographical coverage to new countries. By increasing and diversifying our correspondent banks, the unit has also contributed to spreading the credit risk where our bank might be exposed. We were prepared to face liquidity contractions due to fluctuating environments in the global financial markets yet managed to use this new period to our advantage. Thanks to an opportune access to various funding resources and a widespread correspondent bank network, our bank has survived the liquidity contraction without any damage. In this regard, our Bahrain branch office has displayed outstanding performances, undertaking an extraordinarily significant role in supplying liquidity.

In 2008, the foreign exchange trade volume of our Foreign Exchange Markets unit came to US $10 billion, a 25% growth over that of 2007.

And with a 2008 trade volume in the Istanbul Gold Exchange, already in their first year, our Precious Metals and Commodity Markets unit is moving ahead as one of the most essential players in the Istanbul Gold Exchange. With new products such as gold, silver, and platinum, our bank is determined to foster persistent growth and success in the upcoming years.

In 2009, our Treasury Marketing unit will provide services with an ever-growing new staff, aiming to garner more interest in products actively marketed this year by offering advisory services to customers on rising financial risks.

International Banking

Our International Banking Department shapes all their activities and goals according to the bank's growth strategy. Adopting this vision, our International Banking Department in 2008 continued to widen our correspondent banking network to provide such services as international payments, foreign trade, foreign financing, external guarantees, and so on, which our clients had requested. By the end of 2008, our bank had approximately 1,000 international and local correspondent banks in 96 countries.

Based on our strong partnerships and financial structures, Fitch Ratings, an internationally recognised rating agency, graded our bank as 'BB' (Foreign Currency Long Term-IDR), the highest rating in this field in our country. With this rating, our bank has gained a significant advantage not only in establishing relations with

new correspondent banks but also in allocating new credit limits by our current correspondent banks. Before the global financial crisis, evidenced in September, our bank raised our paid-in capital from 260 million TL to 500 million TL, shoring up the confidence and respect of international markets in our bank. In 2008, our bank particularly focused on countries in the Gulf region, in the Middle East, and in Northern Africa, forming relations with new correspondent banks in these regions. Despite the likely contraction in Turkey's foreign trade volume, our bank created opportunities both to develop intermediate foreign trade transactions, especially export transactions, and to significantly escalate our market share in 2009.

In 2008, our performance figures which demonstrate to Turkish foreign trade companies, particularly those providing foreign contracting services, both the importance and the magnitude of the exceptional support of our bank. With our foreign trade volume, our bank has also broadened relations with correspondent banks.

We have shown our effectiveness abroad not only with our correspondent bank network, but also with our branches and representative offices. With our Bahrain branch and our Representative Office in Germany, our bank is the only Turkish Participation Bank possessing entities abroad. Our Representative Office in Germany follows developments in both European and global markets, promotes our bank to correspondent banks in Germany, and endeavours to create business opportunities in the region for Turkish entrepreneurs and the business world. The process of transforming our Representative Office in Germany into a fully-equipped Financial Services branch is in its final stage.

In 2008, apart from our Bahrain branch office, the bank decided to establish an affiliate in the DIFC region of the United Arab Emirates to attract investors from the Gulf region to our country, and we also conducted a study to this end. Having made considerable progress, though unable to complete the process in 2008, we will no doubt continue to advance this endeavour in the new fiscal year.

With an eye on projecting the bank's effectiveness in Middle Asia and Caucasia, where the Turkish contracting industry is currently implementing vital projects, our International Banking Department has applied to both the Turkish and Kazakh authorities to open an agency in Kazakhstan. We are planning to complete this process, officially inaugurating the agency in Kazakhstan in 2009.

Investment Banking

With expert staffing, competence in international finance markets, and vast advisory experience during previously unsteady periods, our Investment Banking unit has implemented successful projects in the industry, continuing consistent growth in 2008. As in previous years, our unit undertook an intermediary and advisory role in financing projects of different sizes, thereby becoming the choice bank for various large finance houses based in the region.

With an innovative approach, our unit has managed to expand the variety and volume of structured international finance products and in 2008 has made the best use of our advantage in having access to investors in the Gulf region.

Along with loan syndications and club transactions, our Investment Banking unit has also provided our customers corporate products and services related to structured international financing projects. Despite growing competitive conditions, the unit continues to work on various alternative financing structures to meet the needs of our customers in the most efficient way. Being one of the most attractive financing products in this field, our "matched loan" transactions possess a wide margin of the total transaction volume of the unit. A matched loan is a financial instrument, particularly for SMEs, to provide significant facilities and advantages to our customers in terms of financing.

The cooperation we established in 2008 with the International Islamic Trade Finance Corporation (ITFC), set up by Islamic Development Bank to finance foreign trade, will enable our bank to provide customers a new foreign trade financing product for financing imports – another first in Turkey for the Kuveyt Türk, a product we intend to provide our customers in 2009.

To diversify our bank's funding resources with advantages in maturity dates and prices and to advance our competitive edge by offering our customers financing opportunities with lower costs and longer terms, our bank started working on syndication loans and sukuk exports at year-end 2008. We plan to continue this work in 2009, according to current legislation in our country.

Investor Relations

Our Investor Relations Department was established at the end of 2007 prior to the expected public offering at the beginning of 2008. The unit's purpose is to organise and manage relations among our bank, third parties, and the Board of Directors in line with the bank's basic corporate management principles.

For the public offering likely to come up in the future, our Investor Relations Department closely follows the developments in both domestic and foreign markets as well as in applicable legislation and always keeps their activities up-to-date. With the bank's top management and employees, this unit also shares strategic and economic research, banking and industry reports, and various daily and weekly market analysis reports. In 2009, the unit will accelerate their work and continue to ensure that the information flow is even more effective.

FINANCIAL CONTROL

The Financial Control and Reporting group performs analytical information management and notification operations for tracking, controlling, and budget-based directing and planning for Kuveyt Türk's customers, products, and services related to their consolidated profitability, total exposure and return on investment. In other words, our group acts as a command and control centre, carrying out many important functions related to analytical management and notifications such as installing and developing the infrastructure for the bank's entire accounting system; tracking operable and timely reporting for immediate response to and correction of errors, if any; and installing an efficient budgeting and reporting system with correct data flow to sustain reliable management. The group is divided into two main units, Accounting and Financial Control, and Budget and Reporting, aiming to perform these functions exceptionally well through solid technological infrastructures and expertise.

Accounting and Financial Control

The aim of Accounting and Financial Control is to facilitate a realistic presentation of our bank's operating results and risk status by exercising efficient financial and accounting controls within Financial Control. Our operations focus on two main functions: Accounting and Financial Control.

The basic functions of Financial Control include:

- Developing and establishing necessary systems for an efficient and a reliable accounting system and an infrastructure of our bank;
- Instantly detecting and correcting errors through periodic controls on a daily, weekly, and monthly basis in order to keep the accounting records of all transactions accurate, according to the uniform chart of accounts as well as to related legislation and communiqués;
- Enabling internal and external reports to be completed on time with correct and reliable data;
- Supporting the bank's management in decision-making processes by conducting new financial analyses related to the bank and the sector in general;
- Calculating the unit values and dividends as well as their proper reflection on customer accounts through daily controls and analyses of our bank's income and expenses; and
- Offering support in the accounting and systems infrastructure to other divisions for their new products and demands in addition to developing existing controls and establishing new control points.

Basically, our Accounting Department is responsible for the performance of accounting services and for the consistency of accounting records and practices, as well as of their management, according to the Banking Law, Turkish Accounting Standards, Regulations and Communiqués of the Banking Regulation and Supervision Agency, and tax laws. Our unit is also liable for the following:

- To ensure that the tax and similar liabilities of the bank are tracked and performed; make necessary preparations for controls and inspections related to tax issues; correspond with the tax administration and provide information;
- To ensure that product and service purchases are recorded and paid and that overhead expenses of the related units are reflected;
- To pay and track salaries, advances, per diems, expenses, and so forth, of general management;
- To perform the recording, assessment, amortization, redemption and sales of fixed assets as well as to carry out necessary transactions for partnerships and assets to be disposed; and
- To track transactions with domestic and foreign correspondent banks; conduct account audits and account reconciliations.

Our Accounting and Financial Control unit is generally responsible for solving problems related to accounting practices of the branches and general management divisions, making suggestions to users and conducting training, when necessary. Moreover, the unit also performs many other functions: carrying out necessary work for monthly financial reports; making interim and year-end transactions; coordinating work in both internal and external audit processes; providing information to auditors; and preparing requested information and documents. Our unit's aim for 2009 is to increase the efficiency and quality of these services and to advance both internal and external customer satisfaction by making the best use of information technologies.

Budget and Reporting

Budgeting and reporting is a financial roadmap for every institution. Our Budget and Reporting unit draws up the yearly financial roadmap as well as controls and tracks whether our bank's operations are performed according to this roadmap. Our unit clearly explains to relevant branches and divisions our annual targets and management plans designed to achieve these targets, aligned with the strategic targets determined by our bank's top management. At least monthly, we monitor the financial development of our management units, identify deviations, if any, assess their reasons, suggest corrective actions, and carry out performance measurements and assessments in line with target realization rates. As a result of these operations, our unit prepares the reports requested by bank management and required by related public officials.

Budgeting is the most strategic activity of Financial Control and Planning. Increases in the number of our branches and annual growth reflected on our balance sheets are critical to budgeting, giving management opportune and functional command and control. This importance has especially grown in the last few years with the market's basic variables increasing, volatility rising, and both the nature and quality of customers, products, and risks rapidly changing. Consequently, budgeting allows our bank to work in a systematic, efficient, and reliable way by assessing all the factors of the funds policy and all other banking transactions performed in line with the entire financial activity of our bank and by calculating the results of these factors and running scenarios of foreseeable future developments. Budgeting is also a very important tool in seeing the pluses and minuses of each branch, in directing their management according to our bank's basic policy and strategies and in controlling their legitimate activities for purposes of promoting financial and managerial integrity.

In 2009, the new budgeting software to be introduced by our bank will allow us to build a much more flexible budgeting structure and to produce multipurpose comparison reports for the actual status of the budget. Moreover, the new budgeting software will provide instant and detailed comparative tracking of costs and expenses as well as of targets of the branches and divisions, thereby controlling the risks of exceeding the budget.

Reports prepared by our unit are classified under two main headings: Internal Reports and External Reports.

Internal Reports

Our bank reports periodically to our main partners, top management, other divisions, departments, and branches. These reports assist bank management in tracking and assessing their own performances. Certain reports are generated automatically by the system on a daily basis and tracked instantly on the system itself while other reports that require external data are specifically generated by our unit and submitted to those concerned.

These reports are generated daily, weekly, quarterly, and annually. Our unit also generates weekly Asset-Liability Committee reports and monthly Profit & Loss and Balance Sheet reports. Again, they prepare branch and sector performance reports as well as various comparative reports to identify our bank's position within the sector compared to other participation banks and conventional banks. Moreover, our Internal Reporting ,also produces many other reports, not regularly but as requested when the need arises.

External Reports

External reports include reports requested when necessary in addition to reports regularly submitted to government agencies such as the Banking Regulation and Supervision Agency, the Turkish Central Bank, the Undersecretariat of Treasury, and the Association of Participation Banks. About 90 regular reports are submitted to BRSA daily, weekly, monthly, quarterly, and annually. The Turkish Central Bank, the Undersecretariat of Treasury, and institutions monitoring and directing financial markets also supervise the sector through numerous regular reports. Moreover, the Association of Participation Banks, the Savings Deposit Insurance Fund, and various other institutions are among the governmental agencies that receive reports.

Our unit will be able to implement a more flexible, rapid, and healthy reporting system after the completion of a new data warehouse, having been worked on at length and already partially tested in our bank. For that purpose, our bank consistently acquires new reporting tools compatible with ongoing technological advancements as we update our systems, accordingly.

AUDIT AND RISK

Risk Management and Treasury Control Department

The Risk Management and Treasury Control function is subject to the "Regulation on the Risk Management System and Working Procedures and Principles for Risk Management Department," a directive issued by the Board of Directors on 30 January 2007 (Decision No. 576). Their activities encompass defining, following up, measuring, controlling, reporting, and managing risks, possibly faced by the bank. The ultimate responsibility of executing this regulation rests with our Board of Directors. However, the board fulfils this responsibility through both the Audit Committee and the Audit and Risk Committee, delegated under the title, Authority Responsible for Internal Systems. The Audit and Risk Committee performs this task through Chief Risk Officer which assists the Committee in cooperation with the Risk Management unit.

The Risk Management unit constantly follows credit, market, and operational risks the Bank could face and reports their findings to the relevant committees. The unit also conducts stress tests and scenario analyses based on various assumptions and also reports these to the relevant committees. Moreover, risk managers at Kuveyt Türk attend meetings organised at the Kuwait Finance House (KFH), our main partner, together with KFH Bahrain and KFH Malaysia, banking affiliates of KFH. In these meetings, our risk managers work with KFH Group managers for cooperative management of risks to enhance greater effectiveness.

In early 2009, after the Central Bank of Kuwait decided to use BASEL II/IFSB practices, our Risk Management and Treasury Control Department endeavoured to have the consolidated BASEL II/IFSB reports issued within the Kuwait Finance House on quarterly basis and sent trial reports to KFH periodically over three different periods in 2008. The unit also began sending monthly Risk Management Reports to KFH.

Our unit effectively fulfils the requirements of Risk Management legislation according to the Basel II Road Map with an integrated risk management and risk-focused audit approach. Although changes to BASEL II practices were postponed in Turkey, our unit continued working on transitioning to CRD/BASEL-II at Kuveyt Türk. Through participating in surveys, our unit regularly informed the Banking Regulation and Supervision Agency (BRSA) of their efforts in this regard.

Our unit also closely watches the economic conditions and banking markets in Turkey, subsequently providing reports to the Board of Directors.

The chief of the Risk Management and Treasury Control Department is also the chief of the Participation Banks Risk Group and attends monthly meetings of the Basel II Steering Committee organised by BRSA on behalf of the Participation Banks.

Risk Management includes a chief, an operational risk manager, a credit risk manager, and a market risk expert. The Treasury Middle Office, established by the Board of Directors under the Risk Management Department as of 1 April 2007, began working actively in June 2007. The activities of the office include controlling reports, pricing, and activities of the Treasury Department; ensuring that transactions comply with the limits assigned by the Board of Directors to dealers and banks; contributing in designing new products developed by the Treasury; and monitoring market risks. The Information Technologies Department is working on a system to ensure that the Treasury Control Department, which follows Treasury transactions on a daily basis, can both monitor the profitability of transactions and compliance with market prices. We expect this system to be implemented during 2009. The Treasury Control Department consists of two personnel: a manager and an expert.

Based on operational risk studies, the unit provides regular reports on Key Risk Indicators for risks that may affect our bank and investigates such data exceeding threshold values. In addition, our unit investigates any operational losses of the bank as a whole and necessarily consults the Inspection Committee or Internal Control Department. To facilitate monitoring operational loses and determining the bank's risk profile in a better way, our unit plans to record all losses, eyeing to switch to advanced models for calculating the extent of operational risk exposure. Our unit persists in their efforts to control whether the emergency system used in extraordinary circumstances, according to the Emergency Action Plan, works smoothly in detecting problems, if any, and in making any necessary improvements while furthering user awareness and training in this regard.

Compliance Department

Our department operates to ensure the effective, efficient and proper operation of Compliance Policy both in the Bank and subsidiaries subject to consolidation as well as to maintain and improve those standards.

Our department is also responsible for compliance controls requested by BRSA, according to the "Regulation on Internal Systems of Banks," particularly Article 18, issued in the Official Gazette No. 26333 on 1 November 2006. Furthermore, according to the "Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Financing of Terrorism" published in the Official Gazette No. 26999 on 16 September 2008, the Chief of the Legislation and Compliance unit has been appointed as the Compliance Officer.

Compliance personnel are charged at the Bank's international branches and subsidiaries subject to consolidation in order to monitor foreign regulations as well as ensuring compliance and these staff report directly to the Compliance Department.

The Compliance Department has three primary functions.

Legislative function of the department,

- tracking regulatory changes and making necessary announcements,
- advising branches and Head Office departments on legal and regulatory issues,
- providing support to the relevant departments in preparing internal and external publications,
- identifying precautions to prevent actions in conflict with legal regulations and taking the lead in updating internal regulations,
- providing necessary training programs about compliance to legal regulations.

Compliance function of the department,

- controlling the compliance of all current and prospective operations and products of the Bank to the legal regulations, internal policies and procedures as well as banking practices,
- reporting to the relevant authorities regarding to the monitoring of compliance activities,
- monitoring the requirements of the work plans developed by the reports of external auditors.

MASAK Compliance function of the department,

- ensuring compliance with legislation on preventing anti money laundering and financing of terrorism,
- maintaining the customer quality through applying "Know Your Customer" principles,
- preventing our Bank from intentional misusing for money laundering and financing terrorism,
- providing detailed information to the Bank's employees on relevant legal obligations,
- evaluating clients, transactions, and services with a risk-based approach and developing rules and responsibilities to reduce potential risks of our bank, and
- ensuring harmony and cooperation in relations with correspondent banks.

Compliance Department works under the Audit and Risk Committee, which is also the Authority Responsible for Internal Systems, through the head of the Audit and Risk Group.

Internal Control Department

The Internal Control Department has been established to design, apply, manage, and follow internal control activities and to report to senior management on the results of these activities to ensure they are performed according to the internal and external legislation.

In 2008, our department adopted a combined strategy to raise awareness on controls and risks at our bank as we introduced an integrated control mechanism consisting of a coherent combination of "Central Control and Monitoring" and "On-site Control Systems", whose functions complement each other. In this regard, both central and on-site risk-focused controls performed in our branch offices and the departments of the headquarters in coordination contributed in reinforcing the organisation and the reliability of the internal control system. The central control mechanism has ensured that legislation and risky issues are constantly followed; that business processes and new products are considered regarding possible risks; and that the practical procedures and job descriptions are actively defined and organised.

In the 2008 internal control program, our 61 branch offices and three departments within the headquarters were controlled. The findings, opinions, and recommendations established at the end of both the on-site or central(remote) control activities and the Internal Control activities were first communicated to those authorities responsible for executing the activities based on their risks, significance, and whether any corrective or preventive action was required. Consequently, after these joint evaluations, reports were prepared in various formats to apprise senior management. For 2009, we aim to address the risk-based central and on-site controls in our branch offices and departments in line with a planned schedule.

During 2008, the head office of Internal Control introduced the Control Management System (CMS) platform by using their own resources. In this context, the head office commenced operating the Full Automatic Control System (FACS) and the Internal Control Web Portal, the two important components of CMS. These platforms were transformed into an online domain where all the Internal Control activities performed under the head office were managed as various types of information, documents, and reports were monitored, thereby systematizing the internal control activities and facilitating greater effectiveness of our control efforts.

In 2008, our department continued our analysis and periodic reporting efforts on matters pertinent to the bank in general and to our central control goals. For this purpose, an internationally acknowledged cross-platform software, Audit Command Language (ACL), was implemented. This software provides our auditors and financial supervisors the opportdepartmenty to make analytical examinations regardless of the platform they are using, and helps them in accessing financial data and in the analysis and reporting of this data. Hence, our department established a Central Control and Monitoring (ACL) desk and appointed a senior auditor to this desk, serving to multiply the number of projects implemented via ACL in 2009 and to persist in our efforts to ensure more active follow-up of these projects.

Internal Audit Department

The Audit and Inspection Department, elaborately executes a risk based audit and inspection process regarding financial, operational and compliance aspects in order to evaluate and improve the effectiveness of our Bank's risk management, control and governance processes, encompassing our Bank's all activities and departments, through a disciplined and systematic effort.

The Audit and Inspection Department, continues its operations under the Audit and Risk Committee, which is accountable for Internal Systems, through the head of the Audit and Risk Group, and provides periodic reports to the Audit Committee.

Annual audit plan is prepared on a risk focused approach, considering special investigations, consultancy services and personnel training requirements for the upcoming period. In the initial phase, the audit priorities of the branch offices and activities are determined. As a result of the evaluations yielded collaboratively with unit managers, the operational risks and control risks are determined for important products and units and a risk matrix is prepared, including affiliates in consolidation. Firstly approved by the authority accountable for Internal Systems, the audit plan is then put into effect with the approval of our Board of Directors.

Audit operations comprise four areas that, branch offices audit, headquarters units audit, affiliates audit and, information systems audit. In 2008, audit activities were performed in line with the audit plan and expectations of our stakeholders, and special investigations and legal and administrative inquiries were conducted, where necessary. 2008 audit activities primarily focused on credit risk and operational risk. Furthermore, an emphasis was laid on research and development studies, and on efforts to improve audit effectiveness, through a project based approach.

Final audit reports and reports' executive summaries are submitted to senior management. Reports' executive summaries are also distributed to the Audit Committee and the Audit and Risk Committee. Responsive actions related to reports are monitored by follow-up programs, and results of follow-ups are reported to concerning authorities, when necessary. Quarterly activity reports of all audit activities are reported to the Audit Committee and the Board of Directors.

The Audit and Inspection Department, executing audit operations through a risk based approach, provides considerable contribution to our Bank in risk management, compliance of our Bank's operations to legal requirements and our policies, and improvement of efficiency and service quality.

BANKING SERVICES GROUP

OPERATIONS CENTRE

Our bank's Operation Centre executes the operational transactions of the Corporate, Retail, and International Banking departments in different units: Credit Operations, Banking Operations, Foreign Trade, and Treasury. In this context, the centre carries out operations required for process management aiming at strengthening business efficiency, supporting the processes with technological infrastructure and integration. Steadily growing both in the number of branch offices and in the transaction volume, the Operations Centre constantly develops functional structures supporting this growth and consistently provides the most efficient services to our customers. The main objectives of the centre include maximizing quality enhancement and minimizing production costs.

Credit Operations

Our unit performs transactions required for credit, letters of guarantee, and insurance based on submitted data and according to applicable legislation.

Credit

In 2008, apart from rising transaction volume, the unit also introduced several innovative practices to supply greater efficiency and to reduce risks in the Credit Operations area.

In 2008, the unit introduced the "Seller Invoice Record-Control System," developed to prevent repetitive use of invoices by those sellers requesting loans.

Also, to allow for electronic transactions for pledges on vehicles, our unit started coordinated efforts with the General Directorate of Security and the Association of Banks.

Letters of Guarantee

System and organisational studies are being conducted to ensure a central control of letters of guarantee.

Insurance Service

The insurance unit working under the unit has reviewed the insurance processes and introduced practices that allow for insuring projects and for guarantees by the organisation. The unit has also made systemic and organisational improvements to ensure effective monitoring of insurances over the guarantees provided by our bank. We have also introduced the Document Management System (DMS) for loans and for insurance transactions, providing ease of use and raising the rate of transactions.

Banking Operations

Our unit manages the Call Centre, Cash Management, Branch Office Coordination, Swap and other banking operations.

Call Centre

Our Call Centre works 24/7 and responds to all calls from our customers. In 2008, compared to 2007, the number of calls received by the centre increased by 22% to 980,316. Apart from incoming calls, the Call Centre made external calls for various purposes. Our Call Centre carried out sales activities; as a result , the centre received 8,732 automatic payment orders in 2008.

With the introduction of Voiceover IP (VOIP), we are now able to direct calls to branch offices to the Call Centre based on workload. In 2008, the number of branch offices connected to the VOIP network increased to 65. The Call Centre closes out 65% of the calls received from the VOIP network.

Our Call Centre also provides assistance for research and development aiming at collecting and compiling data related to our new services and activities, for example, Retail Loan Follow-Up Calls, NPS Client Questionnaire, Telephone and Internet Banking Sales and Retail Production Support orders.

The numbers of feedback received by the "Customer Satisfaction" service, established as a requirement of production of customer-oriented solutions, increased by 46% to 7,498. In 2008, the centre closed out calls from our clients on the average of 1.5 days. Our Customer Satisfaction service receives and records opinions, suggestions, and complaints from our customers with the utmost care and speed. The centre quickly evaluates the issue, communicates with relevant authorities and helps resolve the problem. The sole purpose of our Customer Satisfaction service is to generate customer satisfaction.

Cash Management

In 2008, despite a growing branch network, our Cash Management unit continued to rapidly meet the cash needs of our Istanbul branch offices.

Clearing

The Clearing unit carries out clearing transactions for checks and promissory notes submitted to the bank's branch offices and the foreign exchange checks drawn by other banks. Our Clearing unit also prints checkbooks subject to our bank's approval process.

With the systemic changes made in 2008, the unit prints and delivers checkbooks requested by branch offices on a daily basis rather than weekly.

Data Entry and Official Correspondences

The Collaterals and Data Entry Unit controls the format requirements for images of collaterals and checks sent by our branch offices in electronic media and enters them in the system. Our Operation Centre also responds to letters from government offices; pays our Bank's checks queried by correspondent banks; notifies the Central Bank of Unpaid Checks, Bounced Checks, and Non-Performing Loans; and records the Ministry of Finance reports, Central Bank checks, bills, credits and irregular entries.

In 2008, the number of entered checks and bills rose by 38% to 712,000. Testing of e-seizure studies that started in 2008 is on progress. We are planning to launch this functionality in the first quarter of 2009.

Branch Coordination

Our Branch Coordination Unit collaborated with the Human Resources Department to determine personnel requirements and associated assignments and promotions for our existing network as well as for the new branches opened in 2008. New recruits employed to serve as Operations Experts were put through an internship in the Foreign Trade and Credit Operations units as part of our on the job training policy.

The Branch Coordination Support Unit eliminated personnel staff shortages in branch office operations, a shortfall originally caused by workload, leaves, health problems, and so forth; thus managed to assure an uninterrupted operation flow.

The grade for our Branch Office Operations reflecting operational performance was calculated and announced on a monthly basis.

The unit also selects the personnel of the month among employees performing their tasks fast and accurately at the branch offices as well as at the Operation Centre. The best staff results are published on our bank's web portal.

Trade Finance Treasury Operations

Our Trade Finance and Treasury Operations Department performs services for import and export transactions, foreign exchange transfers both to and from our bank, and back office functions related to Treasury operations.

In 2008, the unit decided to undergo restructuring based on functions performed by our Operations unit. This restructuring aimed at placing similar functions under the same department and at developing a technical infrastructure to ensure faster and more accurate transactions. Furthermore, it will enable our personnel to specialise in certain areas and to accelerate the accumulation of experience and knowledge.

Accomplishing a first among Participation Banks, six expert personnel from our Operations unit passed the Letter of Credit Specialty exam, organised by the International Chamber of Commerce, and were each granted an "Expert of Letters of Credit" certificate, which is internationally valid.

For SWIFT applications, our Treasury Operation unit has completed the procedures for switching from the relevant BKE to RMA with a password connection.

Our correspondent banks, among the largest in the world, such as Deutsche Bank, the Bank of New York, and Citibank N.A., recognized our bank with several awards for accurate transactions in 2008 based on a 99% accuracy rate in our Foreign Trade Department's money transfer transactions abroad, a rate based on the Straight-Through Process (STP).

INFORMATION TECHNOLOGIES

To upgrade the quality of our banking operations and to offer innovative products and services, our bank's Information Technologies Department purposes to provide technical support and leadership in supplying our bank timely, efficient, and effective information systems and banking technologies to facilitate market dissemination of products and services offered by Kuveyt Türk.

The service-based structuring, commenced during the year, ensures that system analysts and software developers provide their services under the same organization and a single service manager with strategic projects addressed by our Project Management Office and Quality unit according to PMI standards.

In 2008, the IT Department resolved 49,020 calls, evaluated 551 project and development requests, and implemented these important projects:

Instant Messaging and Video Conferencing Application: The unit provided managers the opportunity for video conferencing within the bank in addition to communicating by telephone and e-mail. This system, fully integrated with existing systems, enables personnel to display their statuses when communicating (busy, in meeting, in interview, and so forth), provides training courses, and allows meetings among employees in different locations.

Reporting Server (Deniz): The unit introduced a new dedicated server to the reporting function in order to reduce the workload on the main server. We also made arrangements in some special applications that consumed excessive amounts of resources.

Single Sign In for Banking Applications: The unit has ensured that user name/password combinations for logging onto the system are also valid for the automation system and has updated the authorisation module, accordingly.

Purchasing and Expense Management Automation System: The unit combined the inventory, expense, and purchasing management modules, operating independently and in different places, into a single module, and the parametric management structure provided by the project made possible the integration of the monitoring, follow-up, and approval systems into the HR and Automation System.

IT Health Check: Allowing the unit to function in a healthy environment of current technological, the Information Technologies department determined the current maturity and aging level of our technology and prepared a road map for technological modifications and improvements required in the future.

Establishment of the Document Management System Module (DIVIT): The unit established a new module, DIVIT, described as the gateway to the Document Management System, for all of our banking applications to include a myriad of functions for addition, organisation, and monitoring of documents.

PDA Banking: The unit introduced banking services on Pocket PC devices and implemented the pilot application for all personnel in real environments as a transition to banking by mobile phones, a more widespread application than Pocket PCs.

Swap Participation Account: This project provides the ability to distribute indirect dividends in other foreign exchanges other than in the Turkish lira, the U.S. dollar, and the euro. This project has also ensured that foreign exchanges not having a pool are included in the existing pools for forward exchange sales transactions.

ATM System: The first phase of the ATM project was implemented in 2007. In the second phase in 2008, the unit introduced novelties to this project such as

Cash Deposit, Card-free transactions, Invoice Payment, Top-Up, all of which will strengthen our competitive advantage.

Antivirus Project: The unit safeguarded user computers and servers against viruses, spyware, and malware.

Disk Encryption Project: For the security of our bank's data, the unit encrypted all portable computers, denying access to data in these computers by third parties to prevent theft or loss.

Media Encryption & Port Control Project: The unit plans to encrypt all portable devices that might be connected to computers within our bank's IT system to control ports used for data transfers between these devices and our systems.

Log Management Project: The unit plans to collect and associate the logs of the Kuveyt Türk's IT systems into a single centre.

These projects, begun in 2008, will be implemented in 2009, contributing significantly to our bank.

Credit Transformation Project: This project, started in 2008, establishes a system that allows analyses of Corporate and Commercial Credit applications, the ratings from the results of these analyses, Credit Allocation Request transactions, and the management of guarantee-credit relations.

Credit Cards and Member Businesses Transformation Project: The purpose of this project is to manage operations for credit cards and POS member businesses whereupon we receive external operation services most assuredly through our bank's own dynamics. This project will also bring about such innovations as Virtual Card Application and MasterCard.

Business Intelligence Project: This project permits users to prepare their own reports and is greatly significant for instantly accessing required information. The project is planned in phases; the first phase, Deposits, has already been tested while the unit continues to work on analysing, modelling, and mapping the next phase, Credits.

Administrative Services

Our Admin Services include purchasing, construction and project development as well as communication and security services.

Our unit provides these services: procurement of all goods and services required by Kuveyt Türk; repairs, maintenance, and social services; restoration and refurbishing of branch offices and other bank locations to include planning and establishing communication lines and operation and maintenance processes; and cargo, mail, and other consignment services.

These are the main projects the Administrative Services implemented in 2008:

In 2008, new branch offices were officially opened and put into full service after completion of processes related to renting, planning, restoration, and equipment and inventory procurement.

The restoration and refurbishing of service buildings for the new regional units of Southern Anatolia, European Side-1 and Western Anatolia were completed with these facilities put into full service.

Our Düzce, Gaziantep, Denizli, Antakya and Kütahya branch offices, Beşiktaş, Cennet, Bahçelievler, Bağcılar and Mecidiyeköy branch offices in Istanbul, and Karşıyaka and Gıda Çarşısı branch offices in Izmir are now renovated with these branch offices put into service according to our new branch office concept.

In 2008, 33 branch offices were included in the Voiceover IP (VOIP) system. This enabled these branch offices to make free calls within the bank and to have 30% to 40% discounts for long distance calls. Furthermore, the VOIP system also provided for directing customer calls in the telephone banking system to our Call Centers, reducing the workload for these branch offices and efficiently creating more time for branch office banking and marketing activities.

The Access-based Budget Expense Management, Purchasing, and Fixed Assets Monitoring software of the Administrative Services facility were changed to an Oracle-based new software, widely used by other large organisations in the industry. The new software was developed in coordination with the Financial Control and in such a way that ensures an integrated operation with the Banking Automation Software of Kuveyt Türk. This has facilitated greater effectiveness in monitoring and reporting on our Purchasing, Expenses, and Fixed Assets Management processes consisting of requesting, purchasing, stock recording, and accounting phases starting with internal customers, then going through the Administrative Services and finally to the Accounting and Financial Control for resolution.

After the required infrastructure and software development were completed, the Archive System Monitoring software used in the Central Archive were put into service for our branch offices as well, allowing them to monitor processes related to archived documents in our Central Archive from their locations.

Our Document Management System was expanded to include our communications service, permitting scanned images of all official documents, notifications, and letters physically received by our communications service and distributed within the bank, first sent to their receivers through computers. This application not only reduces the operational workload but also accelerates document-sending processes, allows receivers to take quicker action according to a document's contents, and allows storing these images in computers for instant access.

SECTION II

MANAGEMENT AND CORPORATE GOVERNANCE

The Three Kümbets, Erzurum, Saltuklu Period, 13th century

BOARD OF DIRECTORS

Chairman of the Board

Mohammad S.A.I. Al Omar

Mr. Mohammad Al Omar was born in Kuwait in 1959. A graduate of the Chapman University Department of Economics in California (1986), Mr. Al Omar joined Kuwait Finance House in 1992 after working as a financial analyst and manager in construction and real estate, investments, and procurement functions at Pearl Investment Company. Appointed Assistant General Manager for Investment Sector at the Kuwait Finance House in 1999, Mr. Al Omar became the CEO of Kuwait Finance House in 2007. Mr Al Omar was appointed as the Chairman of the Board of Directors at the Kuveyt Türk Katılım Bankası A.Ş., in 2000, a position he continues to hold along with serving as a member of our bank's Auditing Committee, Auditing and Risk Committee and Credit Committee.

Vice Chairman of the Board

Abdullah Tivnikli

Mr. Abdullah Tivnikli was born in Erzurum in 1959. A graduate of the Mechanical Engineering Department of Istanbul Technical University where he also holds a Masters Degree from the School of Business Administration, Mr. Tivnikli first served in management positions in several private sector companies before assuming the role of Manager of the Project and Financing Department at Albaraka Turk Participation Bank from 1984 to 1988. Mr. Tivnikli joined Kuveyt Türk Katılım Bankası A.Ş. as a Member of Board of Directors in 1988, and was appointed to the position of Vice Chairman of the Board of Directors at Kuveyt Türk Katılım Bankası A.Ş. in 2001, a position he continues to hold.

Member of the Board

Adnan Ertem

Mr. Adnan Ertem was born in Erzincan in 1965. A graduate of the Istanbul University School of Political Science, Public Administration Department (1987), Mr. Ertem also received a master's degree from the Institute of Social Sciences, Political Science Department at the same university. He was awarded a doctorate degree in 1998 for his thesis on social structure and social transformation. Starting his professional career in 1988 as Assistant Auditor at the General Directorate of Foundations Audit Committee's Office, Mr. Ertem was appointed as the Istanbul Regional Director of Foundations in 2002 after serving in various positions within the same organization. Appointed as Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. that same year, Mr. Ertem continues to serve in that position and also as a member of our bank's Corporate Governance Committee and Auditing and Risk Committee. Mr. Ertem was appointed Deputy Undersecretary to the Prime Minister in 2007.

Member of the Board

Azfar Hussain Qarni

Mr. Azfar Hussain Qarni was born in Karachi/Pakistan in 1956. A graduate of the Chemical Engineering Department of Ned University (1980), Mr. Qarni received his master's degree from the Business Administration Department of the Karachi University School of Business Administration and Economics (1987). Starting his professional career as an assistant specialist at Imperial Chemical Industries in Pakistan, he served at various levels at the National Development Finance Corporation of Pakistan and was eventually promoted to Vice President. Appointed as Islamic Development Bank Project Capital Officer in 1996, Mr. Qarni has been a member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş., and also a member of Auditing Committee and Audit and Risk Committee since 2003.

Member of the Board

Fawaz Al Saleh

Mr. Fawaz Al Saleh was born in Kuwait in 1963. A graduate of the Business Administration-Economics Department of McAlester College in the U.S., and joining Kuveyt Türk Katılım Bankası A.Ş. as a member of the Fund Management Department in 1996, Mr. Al Saleh served as Executive Vice President of Kuveyt Türk Katılım Bankası A.Ş. between 2001-2006. He was appointed as a member of the Board of Directors in October 2006 and also serves as the Head of the Kuwait Finance House's office in Turkey.

Member of the Board

Kenan Karadeniz

Mr. Kenan Karadeniz was born in Giresun in 1955. A graduate of the Physics-Chemistry Department of Trabzon Fatih Institute of Education (1979), Mr. Karadeniz started his professional career at the Real Estate Offices of the Trabzon Regional Directorate of Foundations, later working at the Istanbul Regional Directorate of Foundations, Istanbul Regional Director of Real Estate and Revenue, and at the Istanbul Metropolitan Municipality Directorate of Real Estate. He also served as a member of the Board of Directors at Kiptaş A.Ş. (1996-1999) and Halk Ekmek A.Ş. (2000-2003), successively. Working as Department Director and Assistant General Manager at the General Directorate of Foundations since 2005, Mr. Karadeniz has been a member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. since 2006.

Member of the Board

Khaled N. Al Fouzan

Mr. Khaled N. Al Fouzan Saleh was born in Kuwait in 1954. A graduate of the Kuwait University Business Administration Department (1978), Mr. Al Fouzan began his professional career at Kuwait Commercial Bank, later working as Director of Participations at the Kuwait Social Security Institution for 6 years. Appointed as Manager of the Banking Department in 1984, he continued his career at the Social Security Institution after 2004 as the Assistant General Manager for Finance & Management. Mr. Al Fouzan functioned as a member of Board at Gulf Securities Inc., Kuwait Industry Bank and Al Manar Financial Leasing. Mr. Al Fouzan has been a member of the Board of Directors at Kuveyt Türk Katılım Bankası A.Ş. since August 2006 in addition to serving on the Audit and Risk Committee.

Member of the Board

Shaheen Hamad Abdulwahab Al Ghanem

Shaheen Hamad Abdulwahab Al Ghanem was born in Kuwait in 1968. Hold a Master Degree in Business Administration (MBA) in 2008 from Kuwait Mastricht Business School. A Certified Management Accountant (CMA) 2003, from the Institute of Management Accountant in the USA. A graduate of the Kuwait University Business School, Department of Economics and Political Science, Accounting and Business (1994), Mr. Al Ghanem began his professional career as Senior Accountant of the Consolidation And Systems and Procedures at the Kuwait National Petroleum Company in 1989. After working as the Chief Accountant at the International Investors Co., a leading investment firm in the Gulf region, he was appointed Manager of the Financial Control Department at Kuwait Finance House in 2001, a position which he currently holds. Mr. Al Ghanem has been a member of the Board of Directors at Kuveyt Türk Katılım Bankası A.Ş. since 2006 as well as serving on the Audit and Risk Committee.

Chief Executive Officer and Member of the Board

Ufuk Uyan

Mr. Ufuk Uyan was born in Eskişehir in 1958. A graduate of the Bosporus University Department of Economics (1981), Mr. Uyan also received a master's degree from the Business Administration Department of the same university (1983). After starting his professional career as a Research Assistant at the Bosporus University Department of Economics in 1981, he later served as a research economist at the Turkish Industrial Development Bank (Turkiye Sinai Kalkinma Bankasi), Directorate of Special Researches in 1982. Mr. Uyan became a Deputy Project Manager at Albaraka Türk in 1985, and joined Kuwait Turkish as the Director of Projects and Investments in 1989. Appointed Assistant General Manager in 1993, Mr. Uyan has become Chief Executive Officer in 1999, in addition to serving as a member of the Board of Directors and the Credit Committee.

SENIOR MANAGEMENT AND AUDITORS

1- U. Uyan, **2-** R. A. Albayrak, **3-** A. S. Karakaya, **4-** M. Çetinkaya, **5-** B. Sayın, **6-** İ. Yılmaz, **7-** H. Cevdet Yılmaz, **8-** A. Karaca

Ufuk Uyan

Chief Executive Officer

(Please refer to the Board Members for Mr. Uyan's bio.)

Ahmet Karaca

Chief Financial Officer, Financial Control

Mr. Ahmet Karaca was born in Konya in 1970. A graduate of the Ankara University School of Political Science, Department of Public Administration (1990), Mr. Karaca received a master's degree from the New York State University Department of Economics (2006) building his dissertation on international banking and capital markets. Having started his career as Assistant Certified Bank Auditor at the Turkish Treasury in 1992, Mr. Karaca was appointed Certified Bank Auditor in 1995. Joining Banking Regulation and Supervision Agency (BRSA) to assume the same role in 2000, he later became the Deputy Chief Certified Bank Auditor at the BRSA between 2002-2003 and finally appointed Chief Certified Bank Auditor in 2004. Mr. Karaca joined Kuveyt Türk Participation Bank Inc. in July 2006 as the Chief Financial Officer responsible for Financial Control, a position he continues to hold.

Ahmet Süleyman Karakaya

Executive Vice President,
Corporate and Commercial Banking

Mr. Ahmet Süleyman Karakaya was born in İstanbul in 1953. A graduate of the Istanbul University School of Economics, Department of Business Administration and Finance (1979), Mr. Karakaya started his banking career as an inspector at Garanti Bank, Mr. Karakaya then worked as Director of Risk Management, Credits Manager, and Regional Manager at the same bank between 1981 – 2003. He was appointed as Executive Vice President responsible for Corporate and Commercial Banking at Kuveyt Türk in 2003, a position he continues to hold.

Bilal Sayın

Chief Credit Officer

Mr. Bilal Sayın was born in Sakarya in 1966. A graduate of the Middle East Technical University Public Administration Department (1990), Mr. Sayın started his banking career as a specialist clerk at Albaraka Türk in 1990. He joined Kuveyt Türk as Supervisor in the Projects and Investment Office in 1995. Appointed as Manager of Corporate and Commercial Loans in 1999, Mr. Sayın has been serving as Chief Credit Officer since 2003.

Hüseyin Cevdet Yılmaz

Audit and Risk Group Head

Mr. Hüseyin Cevdet Yılmaz was born in İstanbul in 1966. A graduate of the Bosporus University School of Economics and Administrative Sciences, Department of Business Administration (1989), Mr. Yılmaz started his banking career as an Associate Inspector at the Esbank Audit Committee in March 1991. After serving in various positions within this organization, he joined Kuveyt Türk in September 2000 as Head of Board of Inspectors. Mr Yılmaz was appointed as Audit and Risk Group Head in 2003, a position he continues to hold.

Irfan Yılmaz

Executive Vice President, Retail Banking

Mr. İrfan Yılmaz was born in Hakkari in 1970. A graduate of the Istanbul Technical University School of Business Administration, Department of Management Engineering (1989), Mr. Yılmaz started his banking career at the Financial Operations Department of Kuveyt Türk in 1990. He was assigned to Audit Committee in 1996 and later became Chief Auditor between 1998 – 2000. Mr. Yılmaz was appointed as Retail Banking Head in 2000 and promoted to Executive Vice President responsible for Retail banking in 2005, after serving in the same department for five years.

Ruşen Ahmet Albayrak

Executive Vice President, Banking Services Group

Mr. Ruşen Ahmet Albayrak was born in İstanbul in 1966. A graduate of the Istanbul University Department of Industrial Engineering (1988), Mr. Albayrak received a master's degree in Organizational Leadership and Business from the State University of North Carolina, U.S. (1993) and earned his PhD from the Istanbul Technical University in 2007, for his studies on business administration. Mr. Albayrak began his banking career as a specialist clerk at Albaraka Türk Participation Bank Inc. in 1988. Joining Kuveyt Türk Katılım Bankası A.Ş. in 1994, he served in the Financial Analysis and Marketing Departments until 1996. Continuing his career in various firms as consultant, member of the Board of Directors and Managing Director, Mr. Albayrak returned to Kuveyt Türk in 2002 as Acting Executive Vice President responsible for Branch Operations. He was appointed as Executive Vice President responsible for Operations, Technology, and Administrative Services in 2005. Since the re-organisation in 2008, Human Resources, Training and Development, Organisation and Quality Development Departments are also reporting to Mr. Ahmet Albayrak, as he became Executive Vice President responsible for Banking Services Group.

Murat Çetinkaya
Executive Vice President, Treasury, Investment and International Banking

Mr. Murat Çetinkaya was born in Çorlu in 1976. A graduate of the Boğaziçi Üniversity with a double major in International Relations, Faculty of Political Science (İ.İ.B.F.) and in Sociology, Faculty of Sciences. Mr. Çetinkaya also completed his MBA at the Institute of Social Sciences and is still pursuing his Ph.D. studies on finance, economics and politics at the same University. Starting his career at Albaraka Türk Participation Bank Inc., Mr. Çetinkaya worked at various positions including trade finance, treasury and correspondent banking relations. In 2003, Çetinkaya joined Türkiye Halk Bank serving as the Head of International Banking and Structured Finance and later as Executive Vice President responsible for International Banking and Investor Relations. During this period, Mr. Çetinkaya also served in the boards of Halk Bank subsidiaries, and at Halk Yatırım Menkul Değerler A.Ş. as member of the board in his last two years. Çetinkaya joined the Kuveyt Türk family in January 2008 taking charge of Treasury, Investments and International Banking as Executive Vice President.

Ayhan Bayram
Member of the Board of Auditors

Born in Niksar in 1966, Mr. Bayram graduated from the Sivas Cumhuriyet University, Tokat School of Agriculture Vocational High School Accounting program. In 2002, he graduated from the Anadolu University Faculty of Management. From 1991 to 1993 he served as Personnel Director at several private sector companies. In 1993, he was appointed Chief Accountant of the Tokat Başçiftlik Municipality, a position where he served through 2005. In the same year, he was appointed Assistant Regional Director of the Ankara Foundations Regional Directorate of the Turkish Directorate of Foundations. In 2008, he was appointed a member of the Board of Auditors to fill the seat vacated by Prof. Dr. Sabahattin Zaim.

Güven Obalı
Member of the Board of Auditors

Born in Konya in 1943, Mr. Obali graduated from the Ankara University Faculty of Political Science in 1964. In the same year, he passed the Ministry of Finance Assistant Auditor's exam and in 1967 passed the Auditor's exam, taking the title of Auditor. From 1971 to 1972, he was based in Germany, working to adapt the value added law to Turkey. Resigning his position at the Ministry of Finance in 1975, he took a position at the Turkish Industrial Development Bank, Incorporated, where he served in various executive capacities before retiring in 1994.

Ömer Asım Özgözükara
Member of the Board of Auditors

Born in Gaziantep in 1942, Mr. Özgözükara is a graduate of the Ankara University Faculty of Political Science. In 1998, he served as a Chartered Accountant at Koza Chartered Accountants and has been a member of the Board of Auditors of Kuveyt Türk Katılım Bankası A.Ş.since 1998.

BOARD OF DIRECTORS' SUMMARY REPORT AS SUBMITTED TO THE GENERAL ASSEMBLY

In 2008, Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk) had the brightest and most successful period in the bank's 19-year history. Kuveyt Türk continued to grow despite the crisis in global economies and in financial markets and increased the bank's support to the Turkish economy. At the core of this success lay the enthusiasm from the bank's powerful partners and sound capital structure as well as the loyal support of entrepreneurial Turkish investors and the efforts and hard work of the bank's highly qualified staff.

The most prominent indicator of this success is that Kuveyt Türk increased year-end profits in 2008 by 36% to 91,268,000 TL. Another indicator is that the bank received a "BBB- Stable Outlook" rating for Long-Term TL and a "BB Stable Outlook" rating for Long-Term FX from the leading international credit ratings agency, Fitch Ratings.

As of December 31, 2008, Kuveyt Türk raised the bank's paid-in capital by 92.3% to 500 million TL and shareholders' equity by 70% to 688,7 million TL. Moreover, the bank's capital adequacy ratio, having climbed to 15.63%, is still well in excess of the limits required by Basel II International Accounting Standards. As a result of a sound financial structure, the bank closed the year by amplifying total assets by 48% to 5.719 billion TL and total funds by 45% to 4.94 billion TL. The bank's Total Fund Issuance in 2008 was 4.16 billion TL.

Kuveyt Türk, with a market share of 21% among participation banks, has expanded its branch network by 31%, with 27 new branches bringing the total to 114 as part of our far-reaching and fast on-the-spot services policy. Despite anticipated market stagnation in 2009, Kuveyt Türk plans to expand the bank's national branch network with a total of 20 new branches, seven in the first half of the year and thirteen in the second. Moreover, in 2008, Kuveyt Türk initiated efforts to open a new branch in Dubai based on the exemplary international success of the Bahrain branch. Accordingly, Kuveyt Türk submitted the necessary documents, received permission from Dubai officials, and is awaiting approval from the Banking Regulation and Supervision Agency. In addition, Kuveyt Türk has submitted the necessary requests to turn the German representative office into a Financial Services branch while the processes for inaugurating a representative office in Kazakhstan are ongoing.

Kuveyt Türk, firmly believing that labour and intellect are the engines driving a national economy, strengthened the bank's workforce with qualified and expert staff members and increased the number of employees by 25% to 2,246, a significant contribution to Turkey's employment initiatives, all of which play a key role in reinforcing and sustaining the bank's public image of employing professional, trustworthy, and expert staff members.

Kuveyt Türk continuously improves in all areas, including retail banking, international banking, enterprise banking, and corporate banking, and creates new and alternative horizons for the financial products and services sector based on the mission of participation banking. Kuveyt Türk's "Innovative" vision has enabled the bank to become one of the leaders of the interest-free finance sector. Precious metals deposit concepts and participation products like GoldCheck, Forward, Gold Swap, and "Gold for Gold" are all firsts, introduced to the market by Kuveyt Türk. Also in 2008, by focusing more on SME loans, Kuveyt Türk has enlarged the share of such loans to 8% of the total loans. With the development of all these new products and services, as of year-end 2008, retail banking's share in the sector's total company assets is 20%, and this rate is expected to grow every year.

Kuveyt Türk, planning to allocate more funds to develop products that will more efficiently meet the needs of account owners, investors, and credit users, aims to resume the bank's leadership position in alternative distribution channels and superiority in technology. Moreover, Kuveyt Türk has established a customer-oriented banking approach in the sector by developing new products and services that place importance on continuous improvement, knowledge, and experience and that are aligned with customer expectations. Kuveyt Türk will fulfil its innovative vision by continuing to invest in technology, employee and customer satisfaction, sustainable profitability and growth, SME banking, and branching in light of the bank's human resources and quality assurance policies.

However, the bank's growth and innovative vision are not limited to retail banking. Kuveyt Türk enlarged the volume of the bank's customer portfolios, with new customers added and relations with existing customers enrooted. Kuveyt Türk's total credits in corporate and commercial banking have reached 3.3 billion TL. Highly satisfactory results have been obtained in International Banking, by drawing on the bank's leadership position in the non-cash credit arena and on a network of 218 correspondent banks and finance companies in 93 countries as well as on the strength of interest-free banking. Furthermore, Kuveyt Türk has SWIFT agreements with 496 banks throughout the world.

Kuveyt Türk, Kuwait's largest investment in Turkey, is the most active Turkish participation bank abroad in international banking. In 2008, while the Bahrain branch provided US $442 million in resources to Turkey, Kuveyt Türk amplified total deposits to US $103 million with record-breaking growth. By obtaining funds from international correspondent banks to participation accounts, Kuveyt Türk has been able to epitomize Turkey's prestige before international banks and financial institutions in foreign markets under these tough conditions in the global crisis.

However, because of the diminishing appetite for taking market risks, due to the global financial and economic crisis, Kuveyt Türk preferred to remain liquid and follow a more conservative risk strategy. Hence, the 2008 year-end risk balance remained at US $2.8 billion, 75% of the budgeted amount. Likewise, although the Non-Cash Risk balance increased by 39% to US $2.11 billion, because TL lost value in the last quarter, the balance only reached 66% of the targeted amount. Bearing in mind the costs of deposit interests as a result of rapid escalation in interest rates in the last quarter of 2008, Kuveyt Türk adopted a conservative policy in deposit goals and, in parallel with the deposit improvements in the sector, achieved 75% of the target. Due to the bank's structure, Kuveyt Türk places more importance on sustainability of customer relations, therefore not losing more than a couple of blocks of deposits that were extremely sensitive to returns. Hence, Kuveyt Türk managed to keep deposit levels the same at year-end 2008 compared to the previous year's.

Kuveyt Türk aims to continue the success achieved in 2008 and projects to withhold a significant portion of the 2008 profit within the company and to strengthen the shareholders' equity with the planned capital increase in 2009. The bank's ability to have turned conservative cash and non-cash risks to profit during this tough year gives us hope and assures us a bright and successful future.

As the Board of Directors, we are proud to have been with Kuveyt Türk Katılım Bankası A.Ş. in such a successful and prosperous year. However, the devotion of our employees and our partners has played the key role in this success. We owe them our gratitude and wish them many more successes.

The Board of Directors

Galata Mevlevihanesi, İstanbul

COMMITEES REPORTING TO THE BOARD AND AUXILIARY COMMITTEES

INTERNAL SYSTEMS EXECUTIVES

Name and Surname	Position	Education
Hüseyin Cevdet YILMAZ	Chief Audit and Risk Officer	Bachelor's
Bahattin AKÇA	Chairman, Audit Committee	Bachelor's
Tamer Selçuk DURMAN	Head of Risk Mgt and Treasury Control	Bachelor's
Fadıl ULUIŞIK	Acting Head of Compliance	Master's
Vefa Okan ARIK	Acting	Bachelor's

SUPPORTING COMMITTEES UNDER THE BOARD OF DIRECTORS

Committees under the Internal Systems

Audit Committee

Name and Surname		Position	Appointment	Education
Azfar Hussain QARNI	Committe Chairman	Member, Board of Directors	26.10.2007	Master's
Mohammad S.A.I. ALOMAR	Committe Member	Chairman, Board of Directors	27.05.2008	Bachelor's

Duties and Responsibilities: Audit Committee

- Receives regular reports from the units established under the internal control, internal audit and risk management systems and from independent audit bodies on the performance of tasks;
- Notifies the Board of Directors on any matters that might have a negative impact on the continuity and reliability of the bank's activities or that might run counter to legislation and internal regulations; and
- Provides recommendations to the Board of Directors, at least semi-annually, on the results of their activities, actions, and practices required in the bank and on other issues deemed important for continuity and reliability of the bank's activities.

Audit and Risk Committee

Name and Surname		Position	Appointment	Education
Adnan ERTEM	Committe Chairman	Chairman; Member, Board of Directors	29.03.2008	PhD
Mohammad S.A.I. ALOMAR	Committe Member	Chairman; Board of Directors	27.05.2008	Bachelor's
Azfar Hussain QARNI	Committe Member	Member, Board of Directors	29.03.2007	Master's
Khaled Nasser Abdulaziz Al FOUZAN	Committe Member	Member, Board of Directors	29.03.2007	Bachelor's
Shaheen Hamad Abdulwahab Al GANEM	Committe Member	Member, Board of Directors	29.03.2007	Bachelor's

Duties and Responsibilities: Audit and Risk Committee

- Determines strategies, policies and procedures for activities of units operating under the Internal Systems and ensures effective application of these;
- Ensures coordination between units operating under the Internal Systems;
- Notifies the Board of Directors of defects detected by the Banking Regulation and Supervision Agency or by independent Auditors related to practices under the Internal Systems and of necessary actions to eliminate such defects in a timely manner;
- Evaluates detected defects and directs the control and internal audit activities in those areas where the same or similar defects might occur.

Corporate Management Committee

Name and Surname	Position	Date Appointment	Education
Adnan ERTEM	Member, Board of Directors	24.07.2008	PhD
Shaheen Hamad Abdulwahab Al GANEM	Member, Board of Directors	24.07.2008	Bachelor's

Duties and Responsibilities: Corporate Management Committee

- Ensures compliance with the Corporate Management Principles, follows actions taken, works on improvements and makes recommendations to the Board of Directors in this regard.

Basel II Compliance Committee

Name and Surname	Position
H. Cevdet YILMAZ	Chief, Audit and Risk Officer
Bilal SAYIN Vice General Director	EVP, Credits
R. Ahmet ALBAYRAK Vice General Dir.	EVP, Banking Services Group
İrfan YILMAZ Vice General Director	EVP, Retail Banking
Ömer KARAKUŞ	Head of Corporate and Commercial Banking Sales
Ali AKAY	Head of Accounting and Control
Tamer Selçuk DURMAN	Head of Risk Management and Treasury Control
Erdal ÖZBİLİR	VP, Corporate and Commercial Loans

Duties and Responsibilities: Basel II Compliance Committee

- Reviews strategies, policies, and processes of the bank according to Basel II principles and BRSA's regulations and presents their final work to top management and the Board of Directors.

Other Supporting Committees

Executive Committee

Name and Surname		Position
Mohammad S.A.I. ALOMAR	Committe Chairman	Chairman, Board of Directors
Abduşlah TİVNİKLİ	Committe Member	Vice Chairman, Board of Directors
Ufuk UYAN	Committe Member	Member, Board of Directors; General Manager

Duties and Responsibilities: Executive Committee

- Performs a myriad of tasks assigned by the Board of Directors;
- Authorised to purchase immovable properties, affiliates, and inventories up to 10% of the bank's equity capital and makes decisions on partnerships and investments.

Credit Committee

Name and Surname		Position
Mohammad S.A.I. ALOMAR	Committe Chairman	Chairman, Board of Directors
Abduşlah TİVNİKLİ	Committe Member	Vice Chairman, Board of Directors
Ufuk UYAN	Committe Member	Member, Board of Directors; General Manager

Duties and Responsibilities: Credit Committee

- Authorised to provide loans in amounts up to 10% of the bank's equity capital;
- Assembles with the participation of all members;
- Renders any unanimous decisions of the committee immediately applicable and approves decisions by the majority of votes for subsequent applicability;
- Records the committee's decisions in the corporate minute book, maintained according to the procedures and principles governing the minutes of the Board of Directors.

Assets-Liabilities Committee

Name and Surname		Position
Ufuk UYAN	Committe Chairman	Chairman; General Manager; Member, Board of Directors
H. Cevdet YILMAZ	Committe Member	Chief Audit and Risk Officer
Murat ÇETİNKAYA	Committe Member	EVP, Treasury, Investment and International Banking
A. Süleyman KARAKAYA	Committe Member	EVP, Corporate and Commercial Banking
Ahmet KARACA	Committe Member	EVP, Financial Control
Bilal SAYIN	Committe Member	EVP, Credits
İrfan YILMAZ	Committe Member	EVP, Retail Banking
R. Ahmet ALBAYRAK	Committe Member	EVP, Banking Services Group,

Duties and Responsibilities: Assets-Liabilities Committee

- Top management committee responsible for the assets-liabilities and financial management of the bank; assemblies weekly.

ATTENDANCE TO THE MEETINGS OF THE COMMITTEES

The bank's board of directors assembles, when required, according to the Articles of Association, and makes decisions based on current needs. In 2008, the Board of Directors assembled six times with all members present, except those excused.

The Audit Committee monitors the audit and risk activities of the bank according to applicable legislation, particularly the Banking Law, and takes necessary actions, when appropriate. In 2008, the Audit Committee assembled six times with all members present. Furthermore, in 2008, the Audit and Risk Committee assembled five times with unit managers operating under the internal systems as in attendance, for the purpose of increasing the effectiveness of risk management.

The Executive Committee, performing tasks assigned by the board of directors, assembled seven times in 2008.

The Credit Committee, authorised to review and approve loans up to 10% of the bank's equity capital, assembled 24 times in 2008 to perform these tasks.

The Assets-Liabilities Committee, responsible for the bank's financial management and for observing the asset-liability balance, assembled 49 times in 2008.

SUMMARY INFORMATION REGARDING HUMAN RESOURCES POLICIES

HUMAN RESOURCES

The most valuable capital of Kuveyt Türk is "human capital." Knowing the main purpose of all business activities is to enrich our assets and values and to protect and develop our human capital, we continually increased our investments in people. Our bank takes care in applying the best human resources systems and the most developed methods in this area according to global standards, and this year the bank continued intense efforts to strengthen employee satisfaction and service quality in HR.

Heeding the satisfaction of both internal and external customers, Kuveyt Türk is a bank whose people possess strong communicative and persuasive skills while focusing on success with humanitarian values and the willingness to build careers in interest-free banking for their continual development. Our specialised recruiting team in the Human Resources department applies various evaluation techniques and ensures that people with appropriate skills are recruited for the right positions. The training and guidance programs, beginning with orientation right after recruitment, continue throughout the careers of our employees.

Eighty-five percent of our employees at Kuveyt Türk have bachelor's degrees and the average age is 30. In 2008, our bank increased the number of personnel by approximately 25% to 2,246. We are planning to raise that number at a similar rate by the end of 2009.

Having set out to recruit competent young people, our bank made intensive efforts in 2008 to reach out to prospective candidates and to promote ourselves in the most accurate way. For this purpose, our Human Resources department organised career events at several universities and participated in public career fairs, organisations, and conferences. On the Internet, the most practical and up-to-date way of reaching prospective candidates, we have made large scale agreements with leading service providers of Turkey to develop candidate profiles. Given the economic situation of candidates, the bank has moved the recruiting process, previously centralized, to Anatolia. Moreover, as part of our recruiting and collective exam practices – designed for the Anatolian branch offices – our recruiting team has personally gone to relevant cities, and along with our managers, have given the exams, have conducted interviews, and have applied recruitment techniques.

In 2008, in line with our fast branching and growth strategy, our bank continued the Management Trainee Program, started for purposes of recruiting young people who would become our managerial staff of the future. Meticulously chosen among graduates of Turkey's leading universities, the candidates undergo an Assessment Center Process include group interviews based on competence and status, prioritising studies, case analyses, and general ability tests. Then they participate in long-term training and an in-service rotation program. Our manager candidates, awarded with competitive salaries and performance packages, are also provided MBA opportunities for further advancement, especially in the areas of management, competence, and developmental programs, specifically designed for Kuveyt Türk and based on a candidate's personal career progression plans.

Kuwait Turk Participation Bank employees are evaluated according to performance management principles based on goals and competence, and if they reach the required competency levels professionally and personally, the employees may ascend to top management. To assist our employees in developing their careers, our Human Resources department launched a Career Counselling project in 2008. Our HR professionals who have received training in career counselling and are competent counsellors in terms of formation conducted structured career counselling interviews with every employee at every branch office and helped our employees plan their careers. In 2009, this counselling process will continue and include the departments of the Head Office and Operations Center.

TRAINING AND DEVELOPMENT

Our bank has followed the training and development needs of our employees closely. Desiring to create human potential that will make a difference in the industry with knowledge and experience, we launched a new training campaign. Consequently, in supporting employees in their personal development, our bank has organised intensive in-service class training sessions and e-learning programs, and in cooperation with universities, we have provided employees opportunities to attend Master's and MBA programs.

Since our bank strategically prefers to grow, despite an ever-growing competitive environment, we are constantly expanding our branch office network and raising the number of our employees. Since growth targets and fast and effective service are paramount to our bank, we constantly update every business and development process and organise intensive training programs to ensure adaptation to changing processes. In this context, our bank organised "Credit Training Packages" for all branch office directors and sales teams working in the credit evaluation process, which became the most important change project in 2008. These training sessions, lasting nine days, aimed at enhancing skills, knowledge, and competence in financial analysis, interpretation of financial statements, credit providing and risk management and were attended by 79 commercial sales experts and managers. We will continue this training package in 2009 to include 114 branch office managers as participants.

Furthermore, our bank organises "Basic Banking Training Courses," to provide employees of Kuveyt Türk who are new to banking with the basic knowledge, skills, and competence. These training courses address the general structure and practices extant in the banking and finance industry, along with introducing markets, organisations, instruments and products, relevant legislation, conscientious working habits, business and human relations, customer satisfaction, common corporate culture, behavioural models, and the organisation of our bank; 504 employees attended these programs over an average period of 20 days.

Last year our bank launched a training program, "Small Enterprise Credits," to provide our retail sales team the necessary knowledge, skills, and competence related to credit pricing; letters of guarantee; our policies for retail credits and small enterprise credits; and our foreign trade transactions. Our bank continued the program this year with 70 retail sales experts and managers attending the 10-day training sessions organised in four groups.

Effective personnel and performance management directly affects all business results from customer satisfaction to financial outcomes. With this in mind, our bank organised "Manager Development Programs" to ensure the vision of our bank was implemented in our branch offices and departments and to contribute to 'managers and their employees' development. Seventy-one managers attended these programs.

Our bank also implemented Career Development Programs covering training courses in professional and personal development, credit risk, and management for those candidates selected as part of our promotion policy.

Our bank also supported the "Foreign Language" programs both within Turkey and abroad. These programs provide language support to our critical personnel whose English skills are vital and to other personnel whose knowledge of English creates added value.

Our bank continued the training and learning opportunities provided through the Internet to assist in the personal and managerial development of all our employees and organised certificate programs in the Online Training Centre.

Our bank allocates an important portion of the budget to training activities. Accordingly, we completed 6,428 training programs in 2008 and are determined to continually invest in training and Human Resources in 2009.

QUALITY AND ORGANISATION DEVELOPMENT

Our bank considers the development of service quality as one of our strategic priorities, and, accordingly, we have accelerated infrastructural investments. Our Quality and Organisation Development Department has expanded the number of personnel with five new recruits and have started providing services with eight personnel.

In 2008, our Quality and Organisation Development Department implemented important projects for process management, for strengthening coordination and communication within the bank, and for information management and quality measurement.

To foster employee participation in management, to develop team spirit, and to centralise the management of suggestions, the department took the existing suggestion system and transformed it into our "Healthy Opinion Platform." This platform allows employees to make suggestions on pre-determined call issues or on any other subjects other than calls; to write comments on suggestions already entered; and to rate these suggestions as such. Under this project, our bank has also updated the awards policy, and this platform has provided our bank the opportunity to implement very important projects in the near future.

Updating our strategic plan studies to determine the bank's priorities and to make SWOT analyses, our bank organised three "Common Mind Platforms" to include different titles from every department. Our Quality department acted as a coordinator for the strategic plan studies carried out by top management. In 2009, these studies will continue as goals and road maps are determined for all departments in line with our strategic goals. Furthermore, our bank has started working on determining and regularly measuring the basic performance indicators of all processes used for Corporate Performance Management and will continue these efforts in 2009.

As for Process Improvement and Updating, one of the basic functions of our Quality and Organisation Development Department, we organised several meetings in 2008 and conducted studies on process improvement. Our department also provided several training courses, conducted research and benchmark studies, and reviewed software products related to process management methodologies. For 2009, our department is planning for more effective work on process management.

Our bank's portal was reorganised with enhanced content and visual elements. New sections such as corporate news, discussion forums, circular publications, surveys, among others have made important contributions to strengthening the internal communication in the bank. We will continue to work on developing the portal in 2009.

To measure the service quality of our bank, Customer Satisfaction and Mystery Shopper research was organised for our branch offices. Similarly, Internal Customer Satisfaction surveys were organised for our departments. We will continue our surveys on a regular basis and are planning to integrate the results with the performance system in 2009.

TRANSACTIONS CONDUCTED WITHIN THE BANK'S RISK GROUP

Information regarding transactions conducted within the Risk Group of which Kuveyt Türk is a member is provided in detail on page 94 of the Independent Auditor's Report.

OPERATIONS FOR WHICH SERVICES ARE OUTSOURCED

Company Providing the Supporting Service	Supporting Service
AD Yazılım San. ve Danışmanlık Hiz. A.Ş.	Outstanding System Follow-Up Program
Aktif Arşiv Belge Bilgi Yönetim Danışmanlığı	Archive Services Contract
Banksoft Bilişim Bilgisayar Hizmetleri Ltd. Şti.	Contract on Infrastructural Support for ATM and Debit Card Management System Software
Collecturk	Calling customers for collections of receivables
Eastern Networks Çözümleri Tic. A.Ş.	Swift approved service office (ENSB) services specified in the contract
Eastern Networks Çözümleri Tic. A.Ş.	PayGate Messenger, Search, Reconciliation Sales and Maintenance Contract
Eastern Networks Çözümleri Tic. A.Ş.	Swift DRC Contract
Eastern Networks Çözümleri Tic. A.Ş.	Swift Alliance Supporting Services Contract
ETCBASE Yazılım	Legal Proceedings System Cooperation Contract
Experian Scorex S.r.l.	Contract with Experian Scorex for procurement and licensing of Score Cards
IBM Server (ODM)	DRC Contract
İnnova Bilişim Çözümleri A.Ş.	Innova Collection Connection System/Sales Contract
Kuryenet Motorlu Kuryecilik ve Dağ. Hizm. A.Ş.	Consignment and Delivery Contract for Credit Cards
Kuryetel	Motorised Courier Services
Microsoft Corporation	Premier Supporting Services Contract
Securicor Verdi Güvenlik Hizmetleri ve Tic. A.Ş.	Contract for Cash Transport and Similar Services
Unisec	TCMB/EFT Host Connection Software Contract
V.R.P Veri Raporlama Programlama Bilişim Yazılım ve Danışmanlık Hiz. Tic. A.Ş.	Supporting Agreement for Internet Banking Application Software Development
V.R.P Veri Raporlama Programlama Bilişim Yazılım ve Danışmanlık Hiz. Tic. A.Ş.	Internet Banking on PDA's and Mobile Credit Approval System

The Sebil of Saliha Sultan, İstanbul, 18 th century

SECTION III

Financial Information and Risk Management Procedures

REPORT ON THE FUNCTIONING OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

The bank's units operating under the internal systems comprise the Audit Committee, Internal Control, Risk Management and Treasury Control, and the Legislation and Compliance departments. In 2008, one member of the Board of Directors, who was also a member of the bank's Audit Committee, was replaced by another member of the Board of Directors. Furthermore, an additional member of the Board of Directors was appointed to the Audit and Risk Committee, which comprises four members of the Board of Directors, who does not have executive power and also acts as the Authority Responsible for Internal Systems; thus, the number of members of this Committee was raised to five.

The Audit Committee Department updated the audit approach in line with BRSA regulations and implemented auditing activities with a risk-focused approach. Accordingly, the audit priority of the branch offices and the units of the General Directorate was established in line with the risk evaluation, and the most risky areas were given priority in the activities. The audits were performed according to the audit plan and the expectations of stakeholders, and the internal control system and risk management levels were evaluated in the areas audited. Follow-up programs were implemented to increase the effectiveness of the audit. The department also employed information technologies inspectors to monitor the information technologies systems, constituting the foundation of the bank's operations, through periodic, risk-focused audits. In addition, special investigations and legal and administrative proceedings were started where necessary.

According to the "Regulation on the Compliance Program for the Obligations to Prevent Exoneration of Illegal Income and Financing of Terror," published in the Official Gazette, No. 26999, 16 September 2008, the powers of the Retail Banking unit in terms of money laundering were terminated, and these powers were transferred to the Legislation and Compliance Department. In this context, the department is rearranging policies and procedures according to modifications in application legislation.

During 2008, the head office of Internal Control introduced the Control Management System (CMS) platform by using their own resources. Consequently, the head office commenced the Full Automatic Control System (FACS) and the Internal Control Web Portal, the two important components of CMS. These platforms were transformed into an online domain where all the Internal Control activities performed under the head office were managed and various information, documents, and reports were monitored. This systematized internal control activities and increased effectiveness in control efforts.

The Risk Management Department constantly followed credit, market, and operational risks where the bank might be exposed and reported their findings to the relevant committees. The Risk Management Department also applied stress tests and conducted scenario analyses based on various assumptions and reported those results to the relevant committees as well. From Turkey, the chief of Audit and Risk, the chief of Risk, and the chief of Risk Management and Treasury Control attended meetings organised in Kuwait Finance House (KFH), together with KFH Bahrain and KFH Malaysia, the banking affiliates of KFH. In these meetings, Kuveyt Türk risk managers cooperated with KFH Group managers for integrated management of risks to facilitate greater effectiveness. In early 2009, after the Central Bank of Kuwait decided to use BASEL II/IFSB practices, the bank's Risk Management and Treasury Control Department started working on the consolidated BASEL II/IFSB report to be issued within Kuwait Finance House quarterly. Trial reports were sent to KFH periodically over three different periods in 2008. The department also began sending a monthly Risk Management Report to KFH. Although changes to BASEL II practices were postponed in Turkey, our department continued to work on transitioning to CRD/BASEL-II in our bank. Through progress surveys, we kept BRSA constantly abreast of our work in this regard.

The units operating under the internal systems continue to effectively fulfil the requirements of legislation on risk management, according to the Basel II Road Map and with an integrated risk management and risk-focused audit approach.

The Audit Committee organises periodic evaluation meetings both with unit managers operating under the internal systems and managers of the independent audit company to obtain information on the bank's audit and risk status and to provide a stronger and more effective system.

Azfar Hussain QARNI
Member of the Audit Committee

Mohammad S.A.I. ALOMAR
Member of the Audit Committee

FINANCIAL STATUS, PROFITABILITY AND SOLVENCY EVALUATION

Kuveyt Türk, as of year-end 2008, increased its assets by 48% to 5,718,698,000 TL and its shareholders' equity by 70 % to 688,700,000 TL. Parallel to this, the bank's capital adequacy ratio stood at 15.63 %, well in excess of the legally required limits.

The bank will continue to use its resources effectively and to increase its profitability. Detailed information about the bank's financial status, profitability, and solvency can be found in the Independent Auditor's Report section.

RISK MANAGEMENT POLICIES

Credit Risk Management Policies and Procedures

The basic objectives of our credit risk management policy are to measure counter party risks undertaken during credit transactions; to research new techniques and practices in monitoring, measuring and controlling risks, according to legislation and bank limitations; to follow up overdue receivables; to analyse reasons for such payment delays; and to take actions to prevent delays from recurring.

The fundamental principle lies in our top management's administering and monitoring credit policies according to CRD/Basel II directives and based on BRSA recommendations. The Risk Management and Treasury Control Department cooperates with our top management to determine these strategies.

Generally, the credit risk policy includes the guidance and explanatory information on enforcements and procedures regarding customer selection; the power to issue and provide loans; the transfer of power; the organisational structure of the credit committee; credit limits, returns, and guarantees; principles for allocating limits; risk monitoring, controlling, and improving; risk analysis of new products; key risk points; and actions to reduce the risks under those points.

Market Risk Management Policies and Procedures

The primary objective of our market risk policy is aimed at materialising our bank's profitability and growth targets: to minimize possible risks from trade transactions in foreign exchanges, gold, and securities and from possible structural interest risks during these transactions; and to preserve the bank's capital adequacy ratio, accordingly.

Our bank manages market risk by diversifying our portfolio, consulting with the Risk Management and Treasury Departments and the Assets-Liabilities Committees and staying abreast of both the long- and short-term market forecasts, constantly updated by prevailing market conditions and trends. As a guiding tool, our bank uses the transaction and portfolio limits determined by the Assets-Liabilities Committee and approved by top management.

The acceptable risk level in treasury operations are determined by means of such guiding tools as customer limits, transaction limits, permissible transaction types, counter party and country limits, all of which are approved by management. Based on a policy of transparency, especially since our bank wants to present our assets on the balance sheet according to sale potential, we use the "current market evaluation" criteria, "Mark-to-Market" (MTM), outlined in the international accounting rules, meaning that assets on the balance sheet are "to be stated with regard to their market value." In other words, our bank proposes to give its shareholders and participating customers the bank's real financial outlook. To abstain from undertaking excessive market and liquidity risks, our bank also follows the liquidity position, along with the position and profitability of securities and foreign exchanges, the total daily profit-loss status, and the daily nostro accounts. Additionally, the weekly Interest Cost Analysis Report enables the Assets-Liabilities Committee to closely follow the bank's interest cost risks. To protect against the probability of positions occurring that exceed the bank's risk limits, the measures the unit of Treasury may enact at any given time ensures that the interest costs and position risks of our bank are reduced to reasonable levels within limits.

The informational reporting system our bank uses to manage market risks is based on these guiding principles:

- Ensure that risk management concepts function sensibly;
- Make certain all risk-taking activities are compatible with the bank's risk capability and capacity; and
- Ascertain that risk-taking levels are compatible with both the markets where risks are taken and with the risk-taking capacities of those departments taking the risks.

Operational Risk Management Policies and Procedures

To establish a management structure compatible with operational risk policies and practical procedures, our bank allocates all required and sufficient resources used in any category of business to risk management functions and to controlling procedures at the operational risk management level.

The operational risk points are not only responsible for managing external functions, such as insurance, benefits and taking guarantees, procurement of external resources and services from third parties but also for ensuring effective communication with personnel managing credit, the markets, and other risks.

Since our bank's operational risk framework reflects our current organisational structure in practice, this framework also contains all the structural flaws, deficiencies, and difficulties found in any category of business. For this reason, when forming our operational risk profile and practical procedures and supervisory infrastructure for risk management, we consider the level of all similar operational risks and their importance. Similarly, one of the fundamental principles in managing our operational risks is to minimize those risks to the extent possible as well as to focus on solution-oriented functional benefits. In this regard, the bank evaluates and manages operational risks by weighing the operational opportunities and workload of our widespread branch office network and banking service groups.

Our operational risk management process is shaped by appropriate policies and processes providing guidance for defining and measuring operational risks and by effective tests and controls of our operations through a well-built internal control system.

RATINGS ISSUED BY INTERNATIONAL RATING INSTITUTIONS

The following is information on whether the rating agencies authorised according to the "Regulation on the Principles Governing the Authorisation and Activities of Rating Agencies" have carried out rating studies, and on the ratings and contents of ratings granted, if any.

Foreign Exchange		National	
Long Term	BB	Long Term	AAA (tur)
Short Term	B	General Outlook	Stabile
General Outlook	Stable	Retail	D
		Support	3
Local Currency		Country Risk	
Long Term	BBB-	Foreign Exchange Long Term	BB-
Short Term	F3	Local Currency Long Term	BB
General Outlook	Stable	General Outlook	Stable

FIVE-YEAR SUMMARY FINANCIAL INFORMATION

(in thousands of TL)	2004	2005	2006	2007	2008
Profit Sharing Income	143.033	170.852	269.592	354.008	508.106
Profit Sharing Expense	87.715	111.927	165.060	216.149	336.696
Fees and Commissions Income (Net)	27.730	44.917	57.983	92.144	125.689
Other Operating Income	43.005	71.739	77.226	131.331	221.904
Other Operating Expenses	77.819	108.850	128.729	161.761	222.928
Provisions	-	-	-	19.264	30.315
Profit for the Year (Net)	5.667	18.057	39.957	67.078	91.268
Total Assets	1.627.887	2.363.466	2.951.034	3.860.015	5.718.698
Total Shareholders' Equity	212.404	230.312	270.122	404.422	688.700
Capital Adequacy Ratio (%)	16,75	13,27	15,01	14,72	15,63

Kuveyt Türk Katılım Bankası
Anonim Şirketi

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2008

TABLE OF CONTENT

ERNST & YOUNG
Quality In Everything We Do

Independent auditors' report to the board of directors of Kuveyt Türk Katılım Bankası Anonim Şirketi on the consolidated financial statements for the year ended December 31, 2008

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Katılım Bankası Anonim Şirketi A.Ş. and its subsidiaries as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

February 27, 2009
Istanbul, Turkey

(Currency – In thousands of Turkish Lira - TL) 59

	Notes	2008	2007
Assets			
Cash and balances with the Central Bank	4	248,988	155,508
Deposits with other banks and financial institutions	4, 28	938,608	421,431
Reserve deposits at the Central Bank	5	213,421	191,811
Financial assets – available-for-sale	6, 28	1,389	577
Financial assets – held to maturity	6, 28	7,583	5,852
Financial assets – held for trading	6, 28	64	133
Due from financing activities, net	7, 28	3,879,553	2,747,645
Minimum finance lease payments receivable, net	8, 28	113,475	160,940
Derivative financial instruments	19, 28	13,933	3,978
Other assets	9, 28	123,008	23,719
Construction projects, net	10	3,087	3,140
Investment properties, net	11	67,586	59,389
Property and equipment, net	13	84,150	69,742
Intangible assets, net	14	2,847	1,591
Deferred tax assets	17	14,596	7,886
		5,712,288	3,853,342
Assets and a disposal group held for sale	12	6,410	6,673
Total assets		5,718,698	3,860,015
Liabilities and equity			
Due to other financial institutions and banks	15	820,954	433,318
Current and profit / loss sharing investors' accounts	16	4,119,460	2,969,670
Other liabilities	18	46,114	34,372
Provisions	18	6,319	3,226
Derivative financial instruments	19	25,664	6,647
Income taxes payable	17	11,487	7,816
		5,029,998	3,455,049
Liabilities directly associated with assets classified as held for sale	12	-	544
Total liabilities		5,029,998	3,455,593
Share capital	20	500,000	260,000
Share premium	20	23,250	23,250
Legal reserves and retained earnings	21	165,450	121,172
Total equity attributable to equity holders of the parent		688,700	404,422
Total liabilities and equity		5,718,698	3,860,015

The policies and explanatory notes on pages 6 through 60 form an integral part of these consolidated financial statements.

(Currency – in thousands of Turkish Lira - TL)

	Notes	2008	2007
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		343,087	193,582
Profit on originated loans from current accounts and equity		116,789	112,074
Profit on deposits with other banks and financial institutions		32,427	27,897
Profit on finance leases		15,803	20,455
Total income from financing activities		508,106	354,008
Profit shares distributed to participation accounts		(306,462)	(185,865)
Profit shares distributed to other banks and financial institutions		(30,234)	(30,284)
Net financing income		171,410	137,859
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	(83,306)	(34,150)
Net financing income after provision for impairment in due from financing activities and lease receivables		88,104	103,709
Foreign exchange gain, net		29,402	14,114
Net financing income after net foreign exchange gain / (loss)		117,506	117,823
Fees and commission income	24	151,015	109,030
Income/ (loss) from construction projects, net		(28)	473
Net trading income		49,719	7,851
Other income		21,198	13,977
Total other operating income		221,904	131,331
Fees and commission expense	24	(25,326)	(16,886)
Staff costs	25	(111,555)	(83,848)
Depreciation and amortization expense		(15,677)	(11,923)
Withholdings and other taxes		(4,225)	(4,018)
Rent expense		(14,384)	(10,109)
Other expenses	26	(51,761)	(34,977)
Total other operating expense		(222,928)	(161,761)
Income before taxation		116,482	87,393
Current tax charge	17	(32,215)	(7,816)
Deferred tax (charge) / credit	17	6,710	(11,023)
Net income for the year from continuing operations		90,977	68,554
Net income / (loss) after tax for the year from a discontinued operation	12	291	(1,476)
Net income for the year		91,268	67,078
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	22	0.218	0.276
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share) from continuing operations	22	0.218	0.282

The policies and explanatory notes on pages 6 through 60 form an integral part of these consolidated financial statements.

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Total
Balances at January 1, 2007		200,188	-	6,094	63,840	270,122
Share capital increase		59,812	23,250	-	(13,312)	69,750
Transfer from retained earnings to legal reserves		-	-	1,812	(1,812)	-
Dividends paid		-	-	-	(2,528)	(2,528)
Net income for the year		-	-	-	67,078	67,078
Balances at December 31, 2007		260,000	23,250	7,906	113,266	404,422
Share capital increase	20	240,000	-	-	(40,000)	200,000
Transfer from retained earnings to legal reserves		-	-	4,406	(4,406)	-
Dividends paid	21	-	-	-	(6,990)	(6,990)
Net income for the year		-	-	-	91,268	91,268
Balances at December 31, 2008		500,000	23,250	12,312	153,138	688,700

The policies and explanatory notes on pages 6 through 60 form an integral part of these consolidated financial statements.

(Currency – in thousands of Turkish Lira - TL)

	Notes	2008	2007
Cash flows from operating activities:			
Income from continuing operations before taxation		116,482	87,393
Income / (loss) from discontinued operations before taxation		291	(1,476)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11, 13, 14	15,677	11,923
Provision for employee termination benefits and personnel bonus accrual	18	3,627	12,272
Provision for impairment in due from financing activities and lease receivables	7,8	83,306	34,150
Provision for impairment in intangible assets, property and equipment and investment properties		28	579
Provision for net realizable value and other receivables in construction projects	10	95	1,090
Income accrual of funds invested	7	(275,870)	14,462
Expense accrual of participation accounts	16	5,229	8,648
Income accrual from deposits at the Central Bank of Turkey		(1,339)	(635)
Income taxes paid		(28,544)	-
Expense accrual of funds borrowed		5,475	5,022
Net change in derivative financial instruments	19	9,062	2,245
Loss/ (gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		1,771	(1,279)
Gain on sale of available for sale financial assets	6	-	(3)
Gain on sale of discontinued operation		(691)	-
Fair value movement of held for trading securities	6	69	27
Exchange gain of held to maturity investment	6	(1,731)	-
Operating income before changes in operating assets and liabilities		(67,063)	174,418
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(20,271)	(14,356)
Due from financing activities	7	(939,343)	(718,967)
Minimum finance lease payments receivables		47,465	2,285
Other assets and construction projects		(99,331)	(7,272)
Current accounts and profit/loss sharing investors' accounts	16	1,144,561	585,261
Other liabilities		11,742	(2,012)
Payment for employee termination benefits	18	(534)	(565)
Net cash provided by operating activities		77,226	18,792
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(812)	(6,284)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	-	710
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(42,861)	(45,799)
Proceeds from sale of property and equipment, intangible assets and investment properties		5,231	5,376
Additions to assets and liabilities held for sale		(5,229)	-
Proceeds from sale of asset and liabilities held for sale		1,765	786
Net cash used in investing activities		(41,906)	(45,211)
Cash flows from financing activities:			
Dividends paid	21	(6,990)	(2,528)
Increase in due to financial institutions and banks		382,161	151,153
Premium on issue of shares	20	-	23,250
Increase in share capital	20	200,000	46,500
Net cash provided by financing activities		575,171	218,375
Net increase in cash and cash equivalents		610,491	191,956
Cash and cash equivalents at the beginning of the year	4	577,105	385,149
Cash and cash equivalents at the end of the year	4	1,187,596	577,105
Profit share received		232,236	362,060
Profit share paid		331,467	207,501

The policies and explanatory notes on pages 6 through 60 form an integral part of the consolidated financial statements.

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait.

Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on February 27, 2009. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

At December 31, 2008, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has a 100% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The Bank's other subsidiary, Körfez Tatil Beldesi A.Ş. ("Körfez Tatil Beldesi"), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction of 199 "time-sharing" houses in Edremit-Balıkesir.

The Bank's 100% owned subsidiary was sold in 2008 is Auto Land Otomotiv San. ve Tic. A.Ş. ("Auto Land"). Auto Land's registered address is Basın Ekspres Yolu, B Blok, No:5 Halkalı/İstanbul. Auto Land is engaged in purchase, sale and lease transactions in the automotive industry.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments and financial investments held for trading that have been measured at fair value.

The Bank and its subsidiaries (collectively – the Group) maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements are consistent with those previous financial years except as follows:

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the period. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Bank. They did however give rise to additional disclosures.

- IFRIC 12 - Service Concession Arrangements
- IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: The amendment to IAS 39, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category to the available-for-sale or held-to-maturity category in particular circumstances. The amendment also permits an entity to transfer from the fair value through profit or loss, or available-for-sale categories, to the loans and receivables category a financial asset that meets the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future. The amendment requires detailed disclosure relating to such reclassifications. The effective date of the amendment is July 1, 2008 and reclassifications before that date are not permitted. Adoption of these amendments did not have any effect on the financial performance or position of the Group.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after the balance sheet date or later periods but which the Group has not early adopted, as follows:

IAS 1 Presentation of Financial Statements Revised

(effective for financial years beginning on or after January 1, 2009)

IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. One of the main revisions are the requirement that the statement of the changes in equity includes only transactions with share holders; the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in income statement together with "other comprehensive income"; and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Group will make necessary changes to the presentation of its financial statements in 2009.

IFRS 8, Operating Segments

(effective for financial years beginning on or after January 1, 2009)

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group is in the process of assessing the impact of this new standard will have on its financial statements.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

(effective for financial years beginning on or after January 1, 2009)

These amendments to IAS 39 were issued in August 2008 and will become effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 13, Customer Loyalty Programmes

(effective for financial years beginning on or after July 1, 2008)

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 15- Agreements for the Construction of Real Estate

(effective for annual periods beginning on or after January 1, 2009)

This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognized. The Group is in the process of assessing the impact of this new standard will have on its financial statement.

IFRIC 16-Hedges of a Net Investment in a Foreign Operation

(effective for financial years beginning on or after October 1, 2008)

This interpretation clarifies three main issues, namely:

1. A presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.
2. Hedging instrument(s) may be held by any entity or entities within the group.
3. While IAS 39, 'Financial Instruments: Recognition and Measurement', must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 'The Effects of Changes in Foreign Exchange Rates' must be applied in respect of the hedged item.

This interpretation will have no impact on the Group's financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

(effective for financial years beginning on or after January 1, 2009).

The amendments to IFRS 1 allows an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statements and do not have an impact on the financial statements of the Group.

2. Summary of significant accounting policies (continued)

Amendments to IFRS 2 'Share Based Payment' – Vesting Conditions and Cancellations

(effective for annual periods beginning on or after 1 January 2009)

The amendment clarifies two issues: The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. The Group expects that this Interpretation will have no impact on its financial statements.

Amendment to IAS 23 - Borrowing Costs

(effective for financial years beginning on or after January 1, 2009)

The benchmark treatment in the existing standard of expensing all borrowing costs to the income statement is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Revisions to IFRS 3 'Business Combinations' and IAS 27

'Consolidated and Separate Financial Statements'

(effective for annual periods beginning on or after 1 July 2009)

A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued by IASB on January 10, 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

(effective for annual periods beginning on or after 1 January 2009)

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

IFRIC 17 – "Distributions of Non-cash Assets to Owners":

applies to all non-reciprocal distributions of non-cash assets, including those giving the shareholders a choice of receiving non-cash assets or cash. This interpretation is to be applied prospectively and is applicable for annual periods beginning on or after 1 July 2009. The Group is evaluating the effect of the Interpretation.

IFRIC 18 – "Transfer of Assets from Customers"

specifies how the assets such as property, plant and equipment or cash for the construction or acquisition of such items received from the customers should be accounted for. This interpretation is to be applied prospectively to transfers of assets from customers received in periods beginning on or after 1 July 2009. The Group is evaluating the effect of the Interpretation.

Amendments to IFRS 7 Financial Instruments: Disclosures

The amended IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:

- Quoted prices in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2)
- Inputs for the asset or liability that are not based on observable market data (Level 3).

The Group is evaluating the effect of the Interpretation.

Improvements to IFRSs

In May 2008, the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.
- IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell".
- IAS 23 Borrowing Costs: The definition of borrowing costs is revized to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
- An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less cost to sell additional disclosure is require about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use".
- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed.
- IFRS 7 Financial Instruments: Disclosures: Removal of the reference to "total interest income" as a component of finance costs.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 18 Revenue: Replacement of the term "direct costs" with "transaction costs" as defined in IAS 39.
- IAS 19 Employee Benefits: Revised the definition of "past service costs", return on plan assets" and "short term" and "other long-term" employee benefits. Amendments to plans that result in a reduction in benefits related to future service are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

2. Summary of significant accounting policies (continued)

- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 27 Consolidated and Separate Financial Statements: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 29 Financial Reporting in Hyperinflationary Economies: Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 34 Interim Financial Reporting: Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Removed the reference in IAS 39 to a "segment" when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property: Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
- IAS 41 Agriculture: Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term "point-of-sale costs" with "costs to sell".
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the relevant criteria set out are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. An entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the information required when the subsidiary is a disposal group that meets the definition of a discontinued operation.

2.3.1 Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to financial statements. Management exercises judgment and makes use of information available at the date of the preparation of the financial statements in making these assumptions and estimates. The uncertainty about these judgments and estimates could result in outcomes that may have a material effect on future financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements relate to, impairment losses on due from financing activities and lease receivables and pensions which are discussed in the relevant sections of this note below:

The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 18.

There are judgments made by management during the estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets required. Such estimations are disclosed in the relevant notes.

Functional and presentation currency

The functional and presentation currency of the Bank and its subsidiaries is Turkish Lira (TL). Effective from January 1, 2005 concurrent with the removal of six zero digits, the new currency unit of Turkey was introduced as New Turkish Lira (YTL). The Government resolved to remove the "New" reference in the local currency unit effective from January 1, 2009. Accordingly the Group's figures as of December 31, 2008 and comparative figures for previous periods are presented in TL using the conversion rate of TL 1= YTL 1.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of YTL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2008 and 2007 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

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

Consolidation of subsidiaries

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2008 and 2007 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2008 and 2007, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

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

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

All material balances and transactions between the Bank and Subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries subject to consolidation are stated below:

	Effective shareholding by the Bank (%)		
Name of subsidiary	Country of incorporation	December 31, 2008	December 31, 2007
"Körfez"	Turkey	100%	100%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Autoland"	Turkey	-	100%

Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain/loss.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2006	1.40	1.85
December 31, 2007	1.16	1.71
December 31, 2008	1.51	2.14

2. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

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

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

Buildings	50 years
Furniture and office equipment	3–6.67 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

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

Construction projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

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

Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

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

Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment. For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealized gains and losses are recognized directly in equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective yield method. Gains or losses are recognized in profit or loss when the investments are derecognized as impaired, as well as through the amortization process.

Due from financing activities, net

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as "due from financing activities" and are carried at amortized cost. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective yield of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.

2. Summary of significant accounting policies (continued)

Derivative financial instruments

The Bank enters into transactions with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 "Financial Instruments: Recognition and Measurement", they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis.

Offsetting financial instruments

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

Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

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

Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of financial assets

a) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;

(c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

   (i) adverse changes in the payment status of borrowers; or

   (ii) national or local economic conditions that correlate with defaults on the assets of the Bank.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

b) Available for sale financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

c) Available-for-sale financial assets carried at fair value

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

2. Summary of significant accounting policies (continued)

d) Renegotiated financing and leasing receivables

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

Due to other financial institutions and banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

Employee benefits

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

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

(b) Defined contribution plans:

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

Provisions

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

Leases

The group as lessee

Operating leases

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

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

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

The group as lessor

Finance lease

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and expense recognition

Credit card commissions are recognized on a straight-line basis when the service has been provided. Commission income and fees for various banking services (such as money transfers, granting short-term letters of guarantee and letters of credit) are recorded as income at the time when service is given.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 75% - 90% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

Income earned on available-for-sale investments, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

Income tax

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

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

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

2. Summary of significant accounting policies (continued)

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- ·where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Fiduciary assets

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

Related parties

Parties are considered related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control (this includes parents, subsidiary and fellow subsidiary);

  (ii) has an interest that gives it significant influence; or

  (iii) has joint control;

(b) the party is an associate;

(c) the party is a joint venture;

(d) the party is a member of the key management personnel;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees or of any entity that is a related party.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Subsequent events

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

Segment information

The primary segment reporting format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products sold and services provided.

The Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information.

For management purposes, the Bank is organized into three business segments:

Retail Banking – Principally handling individual customers' current, saving and investment accounts and providing consumer loans, credit cards facilities and funds transfer facilities.

Corporate and Commercial Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for corporate and institutional customers.

International and Investment Banking and Treasury – Principally handling foreign relations with respect to receiving syndication loans, interest free investment instruments and carrying relations with correspondent banks.

Total assets, liabilities, off-balance sheet items and revenues generated by the subsidiary of the Bank do not satisfy reportable segment conditions and are therefore included in "other" column in segment disclosures.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment information

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2008 and 2007, respectively.

For the year ended December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	204,263	271,416	32,427	-	-	508,106
Profit shares distributed	(200,838)	(102,118)	(33,740)	-	-	(336,696)
Net fees and commission income	46,731	78,166	342	450	-	125,689
Other income	12,752	22,573	52,112	1,210	11,644	100,291
Total operating income	62,908	270,037	51,141	1,660	11,644	397,390
Provision for impairment in due from financing activities and lease receivables	(30,282)	(53,024)	-	-	-	(83,306)
Net operating income	32,626	217,013	51,141	1,660	11,644	314,084
Operating expenses, net	(7,654)	-	-	(7,396)	(182,552)	(197,602)
Income before taxation	24,972	217,013	51,141	(5,736)	(170,908)	116,482
Tax charge	-	-	-	-	(25,505)	(25,505)
Net income for the year from continuing operations						90,977
Net income for the year from discontinued operations	-	-	-	291	-	291
Net income for the year						91,268

Asset and liabilities as of December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Due from financing activities and financial lease payments receivable, net	1,156,104 (*)	2,836,924	-	-	-	3,993,028
Financial assets – available for sale	-	-	1,389	-	-	1,389
Financial assets – held for trading	-	-	64	-	-	64
Financial assets – held to maturity	-	-	7,583	-	-	7,583
Other	-	54,914	1,401,644	52,550	207,526	1,716,634
Total assets	1,156,104	2,891,838	1,410,680	52,550	207,526	5,718,698
Due to other financial institutions and Banks	-	-	820,954	-	-	820,954
Current and profit / loss sharing investors' accounts	2,690,403	1,220,659	152,918	-	55,480	4,119,460
Other	-	907	25,664	21,096	41,919	89,584
Total liabilities	2,690,403	1,221,566	999,536	21,096	97,399	5,029,998
Capital expenditures	-	-	-	-	42,861	42,861
Depreciation and amortization	-	-	-	-	15,677	15,677

(*) Includes SME loans amounting TL 419,118

3. Segment information (continued)

For the year ended December 31, 2007	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	142,933	182,819	28,256	-	-	354,008
Profit share distributed	(134,260)	(48,791)	(33,001)	(97)	-	(216,149)
Net fees and commission income	31,131	62,619	(1,746)	140	-	92,144
Other income	6,336	8,345	7,851	1,370	12,513	36,415
Total operating income	46,140	204,992	1,360	1,413	12,513	266,418
Provision for impairment in due from financing activities and lease receivables	(10,812)	(23,338)	-	-	-	(34,150)
Net operating income	35,328	181,654	1,360	1,413	12,513	232,268
Operating expenses, net	(6,058)	-	-	(2,534)	(136,283)	(144,875)
Profit before tax	29,270	181,654	1,360	(1,121)	(123,770)	87,393
Tax benefit	-	-	-	-	(18,839)	(18,839)
Net income for the year from continuing operations						68,554
Net income for the year from discontinued operations	-	-	-	(1,476)	-	(1,476)
Net income for the year						67,078

Assets and Liabilities as of December 31, 2007	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Assets and liabilities						
Due from financing activities and financial lease payments receivable, net	933,450 (*)	1,975,135	-	-	-	2,908,585
Financial assets – available for sale	-	-	577	-	-	577
Financial assets – held for trading	-	-	133	-	-	133
Financial assets – held to maturity	-	-	5,852	-	-	5,852
Other	-	34,337	787,376	25,214	97,941	944,868
Total assets	933,450	2,009,472	793,938	25,214	97,941	3,860,015
Due to other financial institutions and Banks	-	-	433,318	-	-	433,318
Current and profit loss sharing investors' accounts	1,920,819	933,399	74,091	-	41,361	2,969,670
Other	-	702	6,647	13,689	31,567	52,605
Total liabilities	1,920,819	934,101	514,056	13,689	72,928	3,455,593
Capital Expenditures	-	-	-	-	45,961	45,961
Depreciation and Amortization	-	-	-	-	11,923	11,923

(*) Includes SME loans amounting TL 220,232.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks

	2008	2007
Cash on hand	63,976	52,942
Balances with the Central Bank	185,012	102,566
Cash and balances with the Central Bank	248,988	155,508
Balances with foreign banks	310,917	178,099
Balances with domestic banks	625,383	241,688
Current accounts in participation banks	2,308	1,644
Balances with banks and other financial institutions	938,608	421,431
Cash and cash equivalents	1,187,596	576,939

As of December 31, 2008 and 2007, within "balances with banks and other financial institutions" are made up of demand and time deposits. The time deposits, which have original maturities less than three months, can be analyzed follows:

	2008				2007			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	-	292,969	-	1.80 %	-	204,450	-	4.59%
Total		292,969				204,450		

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31, 2008 and 2007:

	2008	2007
Cash and balances with the Central Bank	248,988	155,508
Balances with Banks and other financial institutions	938,608	421,431
Cash at banks and on hand attributable to discontinued operation	-	166
Total	1,187,596	577,105

5. Reserve deposits at the central bank of Turkey

	2008		2007	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US$	138,522,788	209,488	445,399	519
EUR	-	-	110,529,733	189,029
TL	-	3,933	-	2,263
		213,421		191,811

As of December 31, 2008, the interest rate applied for Turkish Lira, US$ and Euro reserve deposits are 12%, 0.15% and 1.18% (December 31, 2007 – 11.81%, 1.95% and 1.80%), respectively.

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

6. Financial assets

Available-for-sale

	2008	2007
At cost		
Participation funds	-	-
Unlisted shares (*)	1,389	577
Total available-for-sale financial assets	1,389	577

(*) The breakdown of unlisted shares is as follows:

		2008		2007	
	Nature of business	%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	8.99	577	12.43	577
Haliç Sigorta AŞ	Insurance	6.99	812	-	-
			1,389		577

The Bank has participated in establishment of Haliç Sigorta A.Ş. on October 2008 with 6.99% participation share, which is amounting to TL 812. Parent Company of Haliç Sigorta is Turkapital Holding B.S.C.C..

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments. The Group does not intend to dispose its shares in IRA or Haliç Sigorta A.Ş.

Held to maturity

Held to maturity assets include a Sukuk investment amounting to TL 7,583 that is invested by the Bahrain branch of the Bank (December 31, 2007 – TL 5,852). Islamic bond products are represented by Sukuks. It has a maturity that is determined in advance and is backed by an asset which makes it possible for the investment to earn a return without payment of interest. Sukuks are structured in such a way that their holders run a credit risk and receive part of the profit and not a fixed interest payment in advance. The maturity of the Sukuk is 2010 with quarterly payments. The rate of the Sukuk is Libor+2%.

Held for trading

Financial assets held for trading includes share certificates listed in the Istanbul Stock Exchange (ISE) amounting to TL 64 (December 31, 2007 – TL 133).

The movement in financial assets may be summarized as follows:

Financial investments		2008			2007	
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	577	5,852	133	1,012	-	-
Exchange differences	-	1,731	-	3	-	-
Additions	812	-	-	272	5,852	160
Disposals (sale and redemption)	-	-	-	(710)	-	-
Fair value movement	-	-	(69)	-	-	(27)
Impairment losses	-	-	-	-	-	-
Balance at the end of the year	1,389	7,583	64	577	5,852	133

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net

	2008	2007
Performing		
Funds invested from profit/loss sharing accounts	1,878,013	1,381,741
Funds invested from current accounts and equity	1,587,408	1,285,189
Income accruals on due from financing activities (*)	316,931	41,061
	3,782,352	2,707,991
Funds in arrears		
Funds invested from profit / loss sharing accounts	144,140	54,194
Funds invested from current accounts and equity	110,729	67,569
	254,869	121,763
Total	4,037,221	2,829,754
Impairment allowance		
Funds invested from profit / loss sharing accounts	(80,853)	(47,732)
Funds invested from current accounts and equity	(76,815)	(34,377)
	(157,668)	(82,109)
Total due from financing activities	3,879,553	2,747,645

(*) Includes also foreign currency evaluation differences of foreign currency indexed loans.

As of December 31, 2008 the Bank took possession of collateral (lands and buildings) from customers amounting to TL 14,033 (December 31, 2007 - TL 3,050), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

The movement in impairment allowance is as follows:

	2008	2007
Balance at the beginning of the year	82,109	80,650
Provisions - participation accounts	37,115	5,479
Provisions - bank	81,612	33,828
Recoveries of amounts previously provided for	(13,286)	(7,254)
Reserves written off in current year (*)	(29,882)	(30,594)
Balance at the end of the year	157,668	82,109

(*) In 2008, non-performing loans for which a 100% provision was made in prior periods amounting in total to TL 29,882 were written off (2007 – TL 30,594)

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable (Note 8) is TL 5,422 (December 31, 2007 – TL 5,248) and this amount is included in other income.

The impairment allowance of TL 157,668 (December 31, 2007 – TL 82,109) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the collective reserve allowance for financing receivables are as follows:

	2008	2007
Balance at beginning of year	12,728	9,001
Provisions - bank	2,495	2,957
Provisions - participation accounts	4,246	770
Recoveries and write-offs	-	-
Allowance at the end of the year	19,469	12,728

8. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2008	2007
Gross investment in finance leases	113,802	172,934
Unearned finance income	(10,859)	(22,593)
Total impaired receivables	16,606	14,173
Impairment allowance	(6,074)	(3,574)
Minimum lease payments receivable, net	113,475	160,940

Movements in the impairment allowance for leasing receivables is as follows:

	2008	2007
Balance at 1 January	3,574	7,180
Provisions - participation accounts	3,598	626
Provisions - Bank	1,694	322
Recoveries of amounts previously provided for	(652)	(833)
Impairment allowance written off in current year	(2,140)	(3,721)
Balance at the end of the year	6,074	3,574

Gross investment in finance leases as to their maturity:

	2008	2007
Not later than 1 year (*)	81,271	109,440
Later than 1 year and not later than 5 years	49,137	77,434
Later than 5 years	-	233
Minimum lease payments receivable, gross	130,408	187,107
Less : Unearned finance income	(10,859)	(22,593)
Net investment in finance leases	119,549	164,514
Less : Allowance for impairment	(6,074)	(3,574)
Minimum lease payments receivable, net	113,475	160,940

(*) includes total impaired receivables amounting to TL 16,606 (December 31, 2007 – TL 14,173).

As of December 31, 2008, TL 98,706 (December 31, 2007 - TL 141,701) gross lease receivables are denominated in foreign currency (US$ and EUR).

Net investment in finance leases as to their maturity:

	2008	2007
Not later than 1 year (*)	73,412	95,439
Later than 1 year and not later than 5 years	46,137	68,924
Later than 5 years	-	151
Net investment in finance leases	119,549	164,514

(*) includes total impaired receivables amounting to TL 16,606 (December 31, 2007 – TL 14,173).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

9. Other assets

Other assets comprise the following:

	2008	2007
Precious metals	99,762	10,088
Clearing account	5,883	2,055
Prepaid expenses	3,084	3,507
Receivable from assets sold	2,387	1,198
Value added tax (VAT) receivable	1,788	1,864
Other	10,104	5,007
	123,008	23,719

10. Construction projects, net

Construction projects mainly include the Güre Premises (time sharing houses) which belong to one of the subsidiary of the Bank, Körfez Tatil Beldesi.

	2008	2007
Completed construction projects (inventories) (*)	13,201	13,201
Receivables from construction projects	218	176
	13,419	13,377
(Less) Reserve for net realizable value	(10,061)	(10,061)
(Less) Reserve for doubtful receivables	(271)	(176)
Total construction projects, net	3,087	3,140

(*) In 2008, Körfez sold its premises to Körfez Tatil Beldesi.

11. Investment properties, net

	2008	2007
Balance at the beginning of the year	59,389	35,107
Additions	6,364	18,377
Disposal	(873)	(3,351)
Depreciation charge	(733)	(866)
Impairment allowance	(28)	-
Reversal of impairment due to disposal (*)	-	84
Transfer to assets held for sale (Note 12)	(125)	(3,236)
Transfer from assets held for sale (Note 12)	1,937	
Transfer from property and equipment (Note 13)	1,655	14,205
Transfer to fixed assets (Note 13)	-	(931)
Balance at the end of the year	67,586	59,389
Cost	**70,447**	61,489
Accumulated depreciation	(2,717)	(1,984)
Accumulated impairment	(144)	(116)
Net carrying amount	67,586	59,389

(*) In 2007, the Bank sold investment properties for which there was impairment allowance of TL 84.

11. Investment properties, net (continued)

Out of TL 67,586, an investment property (a building) amounting to TL 18,308 (December 31, 2007 – TL 18,692), is fully financed by Kuwait Finance House and due to the agreement signed, the rental income from this property is directly transferred to Kuwait Finance House each quarter. The Group obtained TL 2,449 rent income from this property during the year ended December 31, 2008 (December 31, 2007 – TL 2,267) and directly transferred to Kuwait Finance House.

Fair value of the investment properties is TL 78,007 (December 31, 2007 - TL 72,837) which is determined based on the valuations performed by independent qualified valuers on December 2008.

In the current economical conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

12. Assets and a disposal group held for sale

At December 31, 2008, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 7,669 (December 31, 2007 – TL 3,236), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank.

Movement of non-current assets held for sale is as follows:

	2008	2007
Balance at the beginning of the year	6,673	-
Additions	7,669	-
Classification of subsidiary as discontinued operations	-	4,165
Transfer from investment property	125	3,236
Transfer to investment property (Note 11)	(1,937)	-
Disposal	(1,955)	(728)
Disposal of subsidiary	(4,165)	-
Balance at the end of the year	6,410	6,673

Gain on sale of assets held for sale amounting to TL 1,046 is included in other income in the income statement (December 31, 2007 – TL 511).

The Bank has disposed 65 % of its shares in Auto Land to Baytik Capital Holding B.S.C in return for TL 1,147 and 35 % of its shares to A'ayan Leasing and Investment Company in return for TL 618 in accordance with the sale agreement dated February 28, 2008. As at December 31, 2007, Auto Land was classified as a disposal group held for sale. Accordingly, in the consolidated financial statements as of December 31, 2008 Auto Land is included in the discontinued operations.

The results of Auto Land included in Group's financial statements until its disposal on February 28, 2008 are presented below:

	2008	2007
Foreign exchange gain/(loss), net	(36)	300
Other income	13	679
Staff costs	(98)	(746)
Depreciation and amortization expense	(151)	(864)
Other expense	(20)	(404)
Effects of consolidation	(108)	(441)
Loss for the period from discontinued operation	(400)	(1,476)
Gain on disposal of the discontinued operation	691	-
Attributable tax expense	-	-
Gain/(loss) after tax for the period from discontinued operation	291	(1,476)

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

12. Assets and a disposal group held for sale (continued)

Cash inflow on sale is as follows:

	2008	2007
Consideration received	1,765	-
Net cash disposal with the subsidiary	(77)	-
Net cash inflow	1,688	-

The net cash flows incurred by Auto Land are as follows:

	2008	2007
Operating	(131)	(608)
Net cash outflow	(131)	(608)

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2007, net of accumulated depreciation and impairment	40,626	14,080	11,717	2,364	3,183	71,970
Additions	639	8,115	3,958	1,685	11,078	25,475
Disposals	(4)	(265)	(225)	(252)	-	(746)
Depreciation charge for the year	(871)	(4,850)	(3,671)	(572)	-	(9,964)
Impairment charge	(663)	-	-	-	-	(663)
Disposal of discontinued operations	-	(235)	-	(2,821)	-	(3,056)
Transfer from/(to) investment property	931	-	-	-	(14,205)	(13,274)
At December 31, 2007, net of accumulated depreciation and impairment	40,658	16,845	11,779	404	56	69,742
Additions	46	22,232	11,796	91	-	34,165
Disposals	(1,583)	(840)	(1,709)	(91)	-	(4,223)
Depreciation charge for the year	(555)	(6,774)	(6,535)	(15)	-	(13,879)
Transfer from/(to) investment property (Note 11)	-	(1,655)	-	-	-	(1,655)
At December 31, 2008, net of accumulated depreciation and impairment	38,566	29,808	15,331	389	56	84,150

(*) TL 5,813 (net) and TL 7,929 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2008 and 2007, respectively. There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2007						
Cost	46,397	46,224	22,521	2,828	56	118,026
Accumulated depreciation	(5,076)	(29,379)	(10,742)	(2,424)	-	(47,621)
Accumulated impairment	(663)	-	-	-	-	(663)
Net carrying amount	40,658	16,845	11,779	404	56	69,742
At December 31, 2008						
Cost	44,860	63,091	32,608	2,798	56	143,413
Accumulated depreciation	(5,631)	(33,283)	(17,277)	(2,409)	-	(58,600)
Accumulated impairment	(663)	-	-	-	-	(663)
Net carrying amount	38,566	29,808	15,331	389	56	84,150

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2008 and 2007 is as follows:

	2008	2007
Motor vehicles	59	148
Leasehold improvements	1,462	1,346
Furniture and office equipment	8,734	6,539
	10,255	8,033

14. Intangible assets, net

	Software
At January 1, 2007	1,724
Additions	1,016
Disposals	(56)
Amortization charge for the year	(1,093)
At December 31, 2007, net of accumulated amortization	1,591
Additions	2,331
Disposals	(10)
Amortization charge for the year	(1,065)
At December 31, 2008, net of accumulated amortization	2,847

At December 31, 2007	
Cost (gross carrying amount)	5,998
Accumulated amortization	(4,407)
Net carrying amount	1,591
At December 31, 2008	
Cost (gross carrying amount)	8,319
Accumulated amortization	(5,472)
Net carrying amount	2,847

The cost of intangible assets, which are fully amortized but still in use as of December 31, 2008 and 2007 is TL 4,287 and TL 2,263, respectively.

15. Due to other financial institutions and banks

	Amount in TL	
Original foreign currency	2008	2007
US$	817,421	420,245
Euro	3,533	13,073
Total	820,954	433,318

As of December 31, 2008 borrowings of which remaining maturities is less than 12 months amount to TL 795,548 (As of December 31, 2007 – TL 172,862).

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

16. Current and profit / loss sharing investors' accounts

	2008	2007
Current accounts:		
Turkish lira	435,795	346,929
Foreign currency	436,794	321,761
	872,589	668,690
Profit/loss sharing investors' accounts:		
Turkish lira	1,674,442	1,000,400
Foreign currency	1,521,247	1,265,568
	3,195,689	2,265,968
Blocked accounts:		
Turkish lira	31,272	20,044
Foreign currency	1,364	1,651
	32,636	21,695
Total current accounts and profit/loss investors' accounts	4,100,914	2,956,353
Expense accrual on current accounts and profit/loss sharing investors' accounts	18,546	13,317
Total current accounts and profit/loss sharing investors' accounts	4,119,460	2,969,670

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	2008 (in TL)			2007 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	1,441,409	1,210,931	2,652,340	990,629	930,156	1,920,785
From 1 month to 3 months	402,438	342,651	745,089	263,386	419,976	683,362
From 3 months to 1 year	28,750	146,037	174,787	39,834	151,762	191,596
Over one year	268,912	259,786	528,698	73,524	87,086	160,610
	2,141,509	1,959,405	4,100,914	1,367,373	1,588,980	2,956,353

At December 31, 2008 and 2007, foreign currency current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2008		2007	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TLequivalent
Current and blocked accounts:				
US$	199,826,624	302,198	180,752,078	210,522
Euro	59,733,084	127,876	57,115,836	97,680
Other		8,084		15,210
		438,158		323,412
Profit/loss sharing investors' accounts:				
US$	632,606,492	956,691	589,510,858	686,604
Euro	263,712,790	564,556	338,536,012	578,964
Other		-		-
		1,521,247		1,265,568
		1,959,405		1,588,980

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no pre-determined return on these accounts when depositing money.

17. Income taxes

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal year ending December 31, 2008, 2007 and 2006 is 20%, unless qualifying capital investments are made in which case the tax rate is 30% for 2007 and 2006. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from January 1, 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to December 31, 2005 will be able to deduct such amounts from corporate income tax base until the end of December 31, 2008; however, the corporate tax rate will be 30% for them. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 will be subject to investment incentives until the end of December 31, 2008. In 2006 and 2007, the Bank utilized its investment incentive allowance; whereas for 2008 the Bank has decided not to utilize its investment incentive allowances, therefore in 2008 the corporate tax rate for the Bank is 20%.

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%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

17. Income taxes (continued)

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or classified under equity for five years in accordance with the New Corporate Tax Law.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2004 - 2008), as the amount, if any, cannot be estimated with any degree of certainty.

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

	2008	2007
Current tax expense	32,215	7,816
Prepaid tax (-)	20,728	-
Income taxes payable	11,487	7,816

	2008	2007
Current tax expense	(32,215)	(7,816)
Deferred tax credit/(charge)	6,710	(11,023)
Total income tax (charge)/credit	(25,505)	(18,839)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2008 and 2007 is as follows:

	2008	2007
Profit before income tax from continuing operations	116,482	87,393
Loss before tax from a discontinued operation	291	(1,476)
Profit before income tax	116,773	85,917
At Turkish statutory income tax rate of 20% (2007 – 30%)	23,355	25,775
Effect of change in tax rate	(1,931)	(1,348)
Effect of income not subject to tax	(2,813)	(5,282)
Effect of expenditure not allowable for income tax purposes	7,834	6,422
Effect of restatement pursuant to IAS 29 and other permanent differences	(940)	(3,063)
Effect of investment incentive	-	(3,665)
Income tax charge	25,505	18,839

Deferred income tax as of December 31, 2008 and 2007 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2008	2007
Provision for impairment in due from financing activities	6,221	1,463
Accounting for finance leases	-	502
Derivative accrual	2,351	534
Reserve for employee termination benefits	744	638
Provision for impairment in subsidiary	3,476	3,028
Deferred income	1,973	1,425
Bonus accrual of personnel	2,750	2,204
Effect of other temporary differences	272	412
Deferred tax assets	17,787	10,206
Restatement of property and equipment, intangible assets and other non-monetary items	2,474	2,280
Accounting for finance leases	717	-
Effect of other temporary differences	-	40
Deferred tax liabilities	3,191	2,320
Deferred tax asset – net	14,596	7,886

Movement of net deferred tax asset is:

	2008	2007
Balance at the beginning of the year	7,886	18,909
Deferred tax (charge)/credit recognized in income statement	6,710	(11,023)
Balance at the end of the year	14,596	7,886

18. Other liabilities and provisions

	2008	2007
Personnel bonus accrual	13,750	11,018
Withholding tax and other tax payables	13,448	7,479
Deferred revenue	10,310	7,960
Payables to exporters and suppliers	3,522	1,219
Security premium for participation funds	2,093	1,626
Leasing payable	1,054	1,997
Deductions on resource utilization fund	621	616
Other	1,316	2,457
Total other liabilities	46,114	34,372
Provisions		
Employee termination benefits	3,806	3,226
Other provisions (*)	2,513	-
Total provisions	6,319	3,226
Total	52,433	37,598

(*) The Bank had a tax penalty, which is agreed with the Tax Administration and will be paid over a period of 18 months.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

18. Other liabilities and provisions (continued)

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

	2008	2007
Balance at January 1	3,226	2,537
Utilized/paid	(534)	(565)
Arising during the year	1,067	1,235
Actuarial loss	47	19
Balance at the end of the year	3,806	3,226

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2.2 and TL 2.0 at December 31, 2008 and 2007, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2008 and 2007, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The following actuarial assumptions were used in the calculation of the total liability:

	2008	2006
Discount rate (%)	12	11
Expected salary / ceiling increase rate (%)	5.4	5

19. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

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

The fair values of forward transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of this financial statements.

	December 31, 2008							
	Fair value assets	Fairvalue liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	13,933	-	848,870	782,813	61,996	4,061	-	-
Currency swap sale	-	25,664	856,582	790,558	63,533	2,491	-	-
	13,933	25,664	1,705,452	1,573,371	125,529	6,552	-	-

	December 31, 2007							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	3,978	-	507,548	340,112	164,101	3,335	-	-
Currency swap sale	-	6,647	497,876	328,783	166,497	2,596	-	-
	3,978	6,647	1,005,424	668,895	330,598	5,931	-	-

20. Share capital

	2008	2007
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	500.00 million	260.00 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2008		2007	
	Number	TL	Number	TL
At January 1	260,000,000	260,000	200,188,000	200,188
Shares issued in				
- bonus shares from retained earnings	40,000,000	40,000	13,312,000	13,312
- cash	200,000,000	200,000	46,500,000	46,500
At year end	500,000,000	500,000	260,000,000	260,000

In 2007, the Bank increased its share capital on May 16, 2007. As the shareholders paid TL 1.5 per share instead of 1 TL per share, TL 23,250 has been recorded as share premium in the financial statements.

The Bank has increased its share capital at May 30, 2008. The share capital increase was funded from the retained earnings amounting to TL 40,000 and by cash payment of shareholders amounting to TL 200,000.

The Bank does not have any classes of shares other than ordinary shares. There is no differentiation in the rights, preferences and restrictions of the ordinary shares.

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

	2008		2007	
	Amount	%	Amount	%
Kuwait Finance House	311,173	62.2	161,810	62.2
Directorate of Vakıf Foundations, Turkey	93,596	18.7	48,670	18.7
The Public Institution for Social Security, Kuwait	45,000	9.0	23,400	9.0
Islamic Development Bank	45,000	9.0	23,400	9.0
Other	5,231	1.1	2,720	1.1
Total share capital	500,000		260,000	

21. Legal reserves, retained earnings, dividends paid and proposed

Legal reserves

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

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 6,990 (2007 - TL 2,528).

	2008	2007
Ordinary shares		
Amount	6,990	2,528
TL (full) per share	0.029	0.012

(CURRENCY – IN THOUSANDS OF TURKISH LİRA - TL UNLESS OTHERWISE INDICATED)

22. Earnings per share

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

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

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

The following reflects the income and per share data used in the basic earnings per share computations:

	2008	2007
Net profit attributable to continuing operations of the Bank for basic earnings per share	90,977	68,554
Net profit/(loss) attributable to discontinued operations for basic earnings per share	291	(1,476)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	91,268	67,078
Weighted average number of ordinary shares for basic earnings per share (thousands)	417,808	242,754
Basic earnings per share (expressed in full TL per share)	0.218	0.276

23. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2007 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2007 - 18.7%), 9.0% (December 31, 2007 - 9.0%) and 9.0% (December 31, 2007 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders and parties associated with them are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2008 and 2007 and transactions have been entered into with related parties during the years ended:

i) Due from financial institutions:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	748	4	748	82
	US$	10,272,815	15,531	579,360	653
	BHD	49,101	197	44,411	137
			15,732		872

ii) Due to other financial institutions:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House, Kuwait (1)	US$	43,804,833	65,811	41,204,913	45,283
Kuwait Finance House (*)	US$	13,452,282	20,345	13,452,282	14,854
Kuwait Finance House, Bahrain	EUR	-	-	3,119,549	5,357
Other	US$	-	-	-	-
			86,156		65,494

(*) The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House.

iii) Profit/loss sharing investors' and current accounts:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	EUR	-	-	-	-
Kuwait Finance House (1)	US$	1,350,170	2,042	1,041,470	1,215
Kuwait Finance House (1)	TL	-	-	-	128
Kuwait Finance House (1)	BHD	-	-	-	-
Islamic Development Bank (1)	US$	5,146	8	21,465	26
Islamic Development Bank (1)	TL	-	-	-	-
Directorate of Vakıf Foundations, Turkey (1)	TL	-	2	-	2
			2,052		1,371

iv) Profit shares distributed:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TLequivalent
Kuwait Finance House (1)	US$	48,304	74	28,753	33
Kuwait Finance House (1)	EUR	-	-	76,198	131
Directorate of Vakıf Foundations, Turkey (1)	TL	-	-	-	205
Other	US$	-	-	-	-
			74		369

v) Non cash credits issued:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US$	489,087	740	1,145,359	1,334
			740		1,334

(1) Shareholders.

As of December 31, 2008 no provisions have been recognized in respect of loans given to related parties (December 31, 2007 - nil).

Loans amounting to TL 84 have been issued to directors during the year ended December 31, 2008 (December 31, 2007 – TL 74).

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 5,257 during the year ended December 31, 2008 (December 31, 2007 – TL 4,205). As of December 31, 2008 the key management personnel did not receive any termination benefits (December 31, 2007 - TL 263).

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman and Audit Committee Member
Abdullah TIVNIKLI	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Kenan KARADENİZ	B.O.D. Member
Shaheen H.A. AL GHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz KH E AL SALEH	B.O.D. Member

Key management includes 9 other officers together with the above B.O.D. members.

24. Fees and commission income and expense

	2008	2007
Fees and commission income		
Service commissions	54,052	45,205
Credit card fees and commissions	19,793	17,323
Commission income from commitments	32,011	20,472
Communication expense charges	18,719	10,585
POS commission income	12,332	6,150
Import letter of credit commissions	4,019	3,583
Income from agency activities	3,055	2,106
Commissions from checks and notes	2,689	2,371
Other	4,345	1,235
Total	151,015	109,030

	2008	2007
Fees and commission expense		
Credit card machine and fees paid for credit cards	23,469	12,824
Brokerage fees on borrowings	833	1,431
ATM charges	162	612
Other	862	2,019
Total	25,326	16,886

25. Salaries and employee benefits

	2008	2007
Staff costs		
Wages and salaries	67,111	49,179
Bonus	13,750	11,018
Social security premiums	11,722	9,102
Other fringe benefits	10,690	7,589
Health expenses	4,079	3,696
Provision for employee termination benefits	1,067	689
Other	3,136	2,575
Total	111,555	83,848

26. Other expenses

	2008	2007
Impairment on completed projects (Note 10)	95	1,326
Impairment on property and equipment (Note 13)	28	663
Impairment charges	123	1,989
Insurance fund premium expense	7,654	6,058
Communication	6,388	4,021
Advertising expenses	5,154	6,192
Repair and maintenance expenses	4,995	2,663
Professional fees	4,302	3,423
Non taxable income	3,167	2,068
Loss from sale of assets	2,982	123
Cleaning expense	2,752	1,904
Travel and representation expenses	2,655	2,419
Energy expenses	2,566	1,669
Security issuance expenses	1,811	20
Insurance and subscription expenses	1,395	363
Stationery and publishing expenses	1,173	929
Computer usage expenses	931	813
Other	3,713	323
Other expenses	51,638	32,988
Total	51,761	34,977

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

27. Commitments and contingencies

In the normal course of its banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2008 and 2007:

	2008	2007
Letters of guarantee issued by the Bank	2,799,023	1,451,541
Letters of credit	363,745	305,154
Commitments	655,231	346,571
Acceptance credits	25,757	9,283
Other guarantees	4,775	3,805
Total	3,848,531	2,116,354

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The Bank has TL 35,797, USD 7,114,636 (full), Euro 1,076,165 (full); total TL 49,188, (converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2008. The allocation of these obligations within lease periods as of December 31, 2008 and 2007 is as follows:

	2008	2007
Within one year	14,446	9,761
After one year but not more than five years	34,414	21,172
More than five years	328	51
	49,188	30,984

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 9,719 and TL 7,132 as of December 31, 2008 and 2007 respectively. As of December 31, 2008, the amounts of the checks and notes are TL 858,409 (December 31, 2007 – TL 680,124) and TL 147,863 (December 31, 2007 – TL 137,567) respectively.

28. Financial risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulation and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

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

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee. Audit Committee is responsible for identifying, measuring, monitoring and reporting market, credit, Liquidity and Operational Risk. These risks are continuously monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

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

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and Internal Systems.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared in year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

28. Financial risk management (continued)

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Risk management and treasury middle office department

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group is exposed,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks.

Internal audit and internal control

Risk management processes throughout the Group are audited annually by the internal audit and internal control functions, which examines both the adequacy and effectiveness of the procedures and the Group's compliance with the procedures. Internal Audit and Internal Control discuss the results of all assessments with management, and reports their findings and recommendations to Senior Management and the Audit Committee.

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily by Risk Management and Treasury Middle Office Department and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals.

Gross maximum exposure	2008	2007
Cash and balances with Central Bank (excluding cash on hand)	398,433	294,377
Deposit with banks and financial institutions	938,608	421,431
Due from financing activities	3,879,553	2,747,645
Minimum financial lease payments receivable	113,475	160,940
Financial assets-available for sale	1,389	577
Financial assets-held to maturity	7,583	5,852
Financial assets-held for trading	64	133
Other assets	23,246	13,631
Derivative financial instruments	13,933	3,978
Derivative assets' notional amounts	848,870	507,548
Total	6,225,154	4,156,112
Contingent liabilities	3,162,768	1,756,695
Other guarantees	30,532	13,088
Commitments	655,231	346,571
Total	3,848,531	2,116,354
Total credit risk exposure	10,073,685	6,272,466

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2008 was TL 93,514 (December 31, 2007 - TL 61,797) and non cash credit exposure as of December 31, 2008 was TL 145,423 (December 31, 2007 - TL 62,164) before taking account of collateral or other credit enhancements.

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2008	2007
	Gross exposure	Gross exposure
Construction and materials	2,000,939	1,172,961
Financial services	2,438,909	1,300,429
Manufacturing	1,176,063	282,777
General retailers	1,033,007	413,178
Mining operations	619,587	500,251
Electricity	224,542	217,898
Telecommunications	191,891	7,311
Health care and social services	198,183	178,326
Forestry	142,017	109,670
Food and beverages	52,814	87,117
Real estate	19,603	26,726
Other	1,976,130	1,975,822
Total	10,073,685	6,272,466

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

28. Financial risk management (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for due from banks, central bank and reserve deposit balances, financing and leasing receivables, letters of credit, letters of guarantee and other guarantees, based on the Group's credit rating system. The Group classifies the Central Bank of Turkey as high grade. Banks and financial institutions located in Turkey, European Union, United States of America and other OECD countries are graded as standard. Banks, which are located in other countries, are graded as sub-standard by the Bank. Customers of financing and leasing receivables, letters of credit, letters of guarantee and other guarantees are graded in accordance with their transaction volume, payment performance and income generation of the Group from the customer.

2008	High Grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	398,433	881,383	57,225	-	-	1,337,041
Financing and leasing receivables	-	103,990	289,920	511,138	3,087,979	3,993,027
Corporate lending	-	103,990	289,920	298,690	1,801,102	2,493,702
Small business lending	-	-	-	25,252	450,754	476,006
Consumer lending	-	-	-	153,926	730,033	883,959
Credit cards	-	-	-	33,270	106,091	139,361
Contingent liabilities and other guarantees	-	466,007	393,585	-	2,333,708	3,193,300
Commitments	-	209,039	-	-	446,192	655,231
Total	398,433	1,660,419	740,730	511,138	5,867,879	9,178,599

2007	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	294,377	283,842	137,589	-	-	715,808
Financing and leasing receivables	-	242,866	63,051	231,524	2,371,144	2,908,585
Corporate lending	-	242,866	63,051	98,579	1,355,191	1,759,687
Small business lending	-	-	-	25,043	772,466	797,509
Consumer lending	-	-	-	99,463	130,145	229,608
Credit cards	-	-	-	8,439	113,342	121,781
Contingent liabilities and other guarantees	-	216,210	161,887	-	1,391,686	1,769,783
Commitments	-	10,270	-	-	336,301	346,571
Total	294 ,377	753,188	362,527	231,524	4,099,131	5,740,747

(*) The Group's rating approach is applicable for financial assets with outstanding risk above TL 3,000.

Aging analysis of past due but not impaired loans per class of financial assets:

2008	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	137,554	11,711	38,338	-	187,603
Consumer lending	64,423	51,373	11,720	-	127,516
Small business lending	40,074	21,423	7,262	-	68,759
Credit cards	6,801	8,928	3,798	-	19,527
Total	248,852	93,435	61,118	-	403,405

2007	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	55,404	8,929	5,439	-	69,772
Consumer lending	62,382	23,525	5,201	-	91,108
Small business lending	10,746	3,337	1,302	-	15,385
Credit cards	3,694	887	425	-	5,006
Total	132,226	36,678	12,367	-	181,271

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2008 and 2007 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2008	2007
Due from financing activities:		
Corporate lending	2,768	3,140
Small business lending	-	-
Total renegotiated financial assets	2,768	3,140

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the ava-ilability of adequate committed funding lines from high quality lenders.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

28. Financial risk management (continued)

Analysis of financial liabilities by remaining contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2008						
Due to other financial institutions and banks	-	501,980	310,105	25,406	-	837,491
Derivative financial instruments	-	854,091	2,491	-	-	856,582
Current accounts	877,146	-	-	-	-	877,146
Profit and loss sharing accounts	-	2,942,312	298,605	1,397	-	3,242,314
Other financial liabilities	-	-	-	4	-	4
Total undiscounted financial liabilities	877,146	4,298,383	611,201	26,807	-	5,813,537
As at December 31, 2007						
Due to other financial institutions and banks	-	40,647	148,928	259,702	-	449,277
Derivative financial instruments	-	495,280	2,596	-	-	497,876
Current accounts	690,385	-	-	-	-	690,385
Profit and loss sharing accounts	-	2,131,440	166,676	532	-	2,298,648
Other financial liabilities	-	895	1,181	6	-	2,082
Total undiscounted financial liabilities	690,385	2,668,262	319,381	260,240	-	3,938,268

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2008						
Contingent liabilities and other guarantees	1,880,747	309,575	292,087	335,802	375,089	3,193,300
Commitments	655,231	-	-	-	-	655,231
Total	2,535,978	309,575	292,087	335,802	375,089	3,848,531
December 31, 2007						
Contingent liabilities and other guarantees	947,298	137,246	211,056	173,537	300,646	1,769,783
Commitments	346,571	-	-	-	-	346,571
Total	1,293,869	137,246	211,056	173,537	300,646	2,116,354

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2008			December 31, 2007		
Precious metal	Increase / decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase / decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	+10	9,976	-	+10	1,009	-
Gold	-10	(9,976)	-	-10	(1,009)	-

Interest risk

The Group operates in non-interest banking sector. The only interest risk sensitive financial asset of the Group is Sukuk, which is classified as held to maturity in the financial statements (Note 6). The Group assesses the interest risk arising from this asset as insignificant to the financial statements.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2008			December 31, 2007		
Currency	Increase / decrease in currency rate in %	Effect on profit before tax	Effect on equity	Increase / decrease in currency rate in %	Effect on profit before tax	Effect on equity
USD and Other	+10	(93)	-	+10	(2,859)	-
USD and Other	-10	93	-	-10	2,859	-
EUR	+10	5,921	-	+10	379	-
EUR	-10	(5,921)	-	-10	(379)	-

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

28. Financial risk management (continued)

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

December 31, 2008

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	10,185	23,510	206	215,087	248,988
Deposits with other banks and financial institutions	263,911	637,794	9,870	27,033	938,608
Reserve deposits at the Central Bank	-	209,488	-	3,933	213,421
Financial assets – available-for-sale	-	577	-	812	1,389
Financial assets – held for trading	-	-	-	64	64
Financial assets – held to maturity	-	7,583	-	-	7,583
Due from financing activities, net	505,240	1,587,576	-	1,786,737	3,879,553
Minimum finance lease payments receivable, net	52,675	39,758	-	21,042	113,475
Derivative financial instruments	207	3,828	-	9,898	13,933
Other assets (*)	-	772	99,762	22,474	123,008
Construction projects, net	-	-	-	3,087	3,087
Investment properties, net	-	-	-	67,586	67,586
Assets held for sale and disposal of group, net	-	-	-	6,410	6,410
Property and equipment, net	-	12	-	84,138	84,150
Intangible assets, net	-	-	-	2,847	2,847
Deferred tax assets	-	-	-	14,596	14,596
Total assets	832,218	2,510,898	109,838	2,265,745	5,718,698
Due to other financial institutions and banks	3,533	817,421	-	-	820,954
Current and profit / loss sharing investors' accounts	694,329	1,284,705	10,024	2,130,402	4,119,460
Other liabilities	750	8,030	552	36,782	46,114
Provisions	-	-	-	6,319	6,319
Income taxes payable	-	-	-	11,487	11,487
Derivative financial instruments	-	2,651	-	23,013	25,664
Liabilities directly associated with assets classified as held for sale, net	-	-	-	-	-
Equity	-	-	-	688,700	688,700
Total liabilities and equity	698,612	2,112,807	10,576	2,896,703	5,718,698
Net Balance Sheet Position	133,606	398,091	99,262	(630,958)	-
Net Off-Balance Sheet Position	(74,392)	(422,637)	(73,785)	571,947	

(*) Other section of "Other Assets" mainly consist of gold transactions.

December 31, 2007

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	9,490	13,778	371	131,869	155,508
Deposits with other banks and financial institutions	50,803	343,007	6,412	21,209	421,431
Reserve deposits at the Central Bank	189,029	519	-	2,263	191,811
Financial assets – available-for-sale	-	577	-	-	577
Financial assets – held-to-maturity	-	5,852	-	-	5,852
Financial assets – held for trading	-	-	-	133	133
Due from financing activities, net	558,062	998,296	-	1,191,287	2,747,645
Minimum finance lease payments receivable, net	74,724	59,192	-	27,024	160,940
Derivative financial instruments	-	709	29	3,240	3,978
Other assets	187	637	11,786	11,109	23,719
Construction projects, net	-	-	-	3,140	3,140
Investment properties, net	-	-	-	59,389	59,389
Assets held for sale and disposal of group, net	-	-	-	6,673	6,673
Property and equipment, net	-	19	-	69,723	69,742
Intangible assets, net	-	-	-	1,591	1,591
Deferred tax assets	-	-	-	7,886	7,886
Total assets	882,295	1,422,586	18,598	1,536,536	3,860,015
Due to other financial institutions and banks	13,073	420,245	-	-	433,318
Current and profit / loss sharing investors' accounts	681,024	900,863	15,211	1,372,572	2,969,670
Other liabilities	665	2,093	468	31,146	34,372
Provisions	-	-	-	3,226	3,226
Income taxes payable	-	-	-	7,816	7,816
Derivative financial instruments	-	125	-	6,522	6,647
Liabilities directly associated with assets classified as held for sale, net	-	-	-	544	544
Equity	-	-	-	404,422	404,422
Total liabilities and equity	694,762	1,323,326	15,679	1,826,248	3,860,015
Net Balance Sheet Position	187,533	99,260	2,919	(289,712)	-
Net Off-Balance Sheet Position	(183,743)	(131,232)	459	313,929	

Pricing risk

The Group utilizes funds with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

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

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2008 and 2007, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

(Currency – in thousands of Turkish Lira - TL unless otherwise indicated)

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	2008		2007	
Tier 1 capital	686,902		378,008	
Tier 2 capital	24,959		15,491	
Total capital	711,861		393,499	
Risk weighted assets amount subject to market and operational risk	4,555,841		2,672,367	
	Actual	Required	Actual	Required
Tier 1 capital ratio	15.08%	-	14.15%	
Total capital ratio	15.63%	12%	14.72%	12%

29. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2008, the fair value of financing and leasing receivables has been estimated as TL 4,175,316 (December 31, 2007 – TL 2,888,177) whereas their carrying amount is TL 3,993,028 (December 31, 2007 – TL 2,908,585).

Fair value of borrowings at amortized cost is estimated as TL 821,732 (December 31, 2007 – TL 432,544), whereas their carrying amount is TL 820,954 (December 31, 2007 – TL 433,318). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term. Fair value of held to maturity investment (Sukuk Bond) is estimated as TL 6,994 (December 31, 2007 – TL 5,884), whereas its carrying amount is TL 7,583 (December 31, 2007 – 5,852).

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

30. Subsequent events

The Bank has repaid its syndication borrowing amounting to USD 200 million on February 19, 2009 in cash.

As of the authorization date of the financial statements US Dollar/TL parity and EUR/TL parity is 1.6813 and 2.1442 respectively.

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