Kuveyt Türk Katılım Bankası Anonim Şirketi

Consolidated financial statements together with independent auditors' report
December 31, 2008

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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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated balance sheet
As at December 31, 2008
(Currency – In thousands of Turkish Lira - TL)

	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.

Consolidated income statement
For the year ended December 31, 2008
(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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of changes in equity
For the year ended December 31, 2008
(Currency – In thousands of Turkish Lira - TL)

	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.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated cash flow statement
For the year ended December 31, 2008
(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.

2. Summary of significant accounting policies (continued)

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.

- <u>IFRIC 12</u> - Service Concession Arrangements

- <u>IFRIC 14</u> - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

- <u>Amendments to IAS 39 Financial Instruments:</u> 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.

2. Summary of significant accounting policies (continued)

- ***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.

2. Summary of significant accounting policies (continued)

- ***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.

- ***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.

2. Summary of significant accounting policies (continued)

- ***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.

2. Summary of significant accounting policies (continued)

- 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.

- 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.

2. Summary of significant accounting policies (continued)

- 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.

2. Summary of significant accounting policies (continued)

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.

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

2. Summary of significant accounting policies (continued)

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

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.

2. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

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.

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.

2. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

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

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

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

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

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..

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

6. Financial assets (continued)

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

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.

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

7. Due from financing activities, net (continued)

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

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

8. Minimum finance lease payments receivable, net (continued)

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.

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

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.

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

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

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)

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)

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

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

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

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

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

16. Current and profit loss sharing investors' accounts (continued)

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)	TL equivalent
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 predetermined 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.

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

17. Income taxes (continued)

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.

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)

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

17. Income taxes (continued)

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

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

17. Income taxes (continued)

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.

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

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

18. Other liabilities and provisions (continued)

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	**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	**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	-	-

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

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.

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

21. Legal reserves, retained earnings, dividends paid and proposed (continued)

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

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

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

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.

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

23. Related party disclosures (continued)

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)	TL equivalent
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).

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).

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

23. Related party disclosures (continued)

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

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

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.

28. Financial risk management (continued)

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.

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.

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

28. Financial risk management (continued)

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.

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

28. Financial risk management (continued)

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

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.

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

28. Financial risk management (continued)

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.

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

28. Financial risk management (continued)

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 availability 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.

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

28. Financial risk management (continued)

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.

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

28. Financial risk management (continued)

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.

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

28. Financial risk management (continued)

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.

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).

29. Fair value of financial instruments (continued)

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.